EMBARGOED

Helping Shareholders Vote Their Values

[proxypreview]™

2019

ABOUT THE AUTHORS

Heidi Welsh, the founding executive director of the Sustainable Investments Institute (Si2), has analyzed corporate responsibility issues for 30 years. Starting at the Investor Responsibility Research Center in 1987, she provided detailed coverage of shareholder advocacy and monitored corporate compliance with a fair employment code in Northern Ireland for 16 years. In addition, she co-authored CDP's S&P 500 report in 2007, headed up sustainability research within a unit of what is now MSCI, and consulted on Global Reporting Initiative guidelines. Welsh is the lead author of three Si2 studies about corporate political activity governance and spending. She received her B.A. from Carleton College, cum laude, and an M.S. from the Institute for Conflict Analysis and Resolution at George Mason University.

Michael Passoff is the founder and CEO of Proxy Impact, a shareholder advocacy and proxy voting service for sustainable and responsible investors (SRIs). Michael has over 20 years of experience in corporate social responsibility, shareholder advocacy, and philanthropy. For more than a decade Michael served as the Senior Program Director for the As You Sow Foundation's Corporate Social Responsibility Program. In 2005 he founded the *Proxy Preview* to alert foundations, SRIs, pension funds, labor, and faith-based communities to upcoming shareholder resolutions that are relevant to their mission. Michael has led and participated in more than 300 shareholder dialogues and resolutions on environmental, social and governance issues. His shareholder advocacy work led him to be named as one of 2009's "100 Most Influential People in Business Ethics" by Ethisphere Magazine and he also received the Climate Change Business Journal award for a shareholder campaign that prompted greenhouse gas emission reductions and renewable energy development at public utilities.

SPONSORS

This report was made possible by the generous support of the following sponsors:

Proxy Promoter: Jonathan Scott at Singing Field Foundation; Stu Dalheim and Shirley Peoples at Calvert Research and Management; Mary Jane McQuillen at ClearBridge Investments; Laura Campos at Nathan Cummings Foundation; Jonas Kron, Lisa MacKinnon, and Matt Patsky at Trillium Asset Management.

Proxy Players: George Gay, Steven Scheuth, and Holly Testa at First Affirmative Financial Network; Aaron Bernstein, and Stephen Davis at Global Proxy Watch; Fran Teplitz at Green America; Leslie Samuelrich at Green Century Capital Management; Brianna Harrington and John Harrington at Harrington Investments, Inc.; Dr. Marcy Murninghan at Murninghan Post; Joe Sinha at Parnassus Investments; Thomas Van Dyck at RBC Wealth Management; Tony Hay, Andy Nichol, and Hugh Whelan at Responsible Investor; Tim Little, Tim Smith, and Steve Viederman at Rose Foundation for Communities and the Environment Foundation Partnership on Corporate Responsibility; Larissa Ruoff at Sustainability Group of Loring, Wolcott & Coolidge Trust, LLC; Patricia Farrar-Rivas at Veris Wealth Partners.

Proxy Pals: Natasha Lamb at Arjuna Capital; Patricia Karr Seabrook at Miller/Howard Investments; Catherine Cartier at Progressive Asset Management; Tim Smith and Heidi Vanni at Walden Asset Management.

ACKNOWLEDGEMENTS

***Proxy Preview 2019* was made possible with the cooperation of the following proponents, either individually or through shareholder advocacy coordinators that include most prominently:** AFSCME, the Interfaith Center on Corporate Responsibility, the Ceres Coalition, the Center for Political Accountability and the Investor Environmental Health Network.

7th Generation Interfaith Coalition for Responsible Investment, AFL-CIO, Alex Friedmann, Amalgamated Bank, Amazon Workers, American Baptist Church, Arjuna Capital, As You Sow, Azzad Asset Management, Benedictine Sister of Boerne, Tex., Boston Common Asset Management, California Public Employees' Retirement System, Change to Win, Christian Brothers Investment Services, Clean Yield Asset Management, Dana Investments, Domini Social Investments, Edith P. Homans Family Trust, Episcopal Church, First Affirmative Financial Network, Freeda Cathcart, Friends Fiduciary, Gund Foundation, Green Century, Harrington Investments, Illinois State Treasurer, James McRitchie, Jantz Management, Jesuit Conference, Jing Zhao, JLens, John Chevedden, Kenneth Fink, Mercy Investment Services, MGE Shareowners for Clean Energy, Midwest Capuchins, Nathan Cummings Foundation, New York State Common Retirement Fund, Newground Social Investment, NorthStar Asset Management, New York City pension funds, Oxfam America, Impax Asset Management, Park Foundation, People for the Ethical Treatment of Animals, Philadelphia Public Employees Retirement System, Presbyterian Church (USA), Priests of the Sacred Heart, Proxy Impact, Rhode Island Pension Fund, Robert Andrew Davis, Sam and Wendy Hitt Family Trust, Sarah Moore, School Sisters of St. Francis, Milwaukee, Segal Marco Advisors, Service Employees International Union Master Trust, Socially Responsible Investment Coalition, Sonen Capital, Sisters of Charity of the Blessed Virgin Mary, Sisters of St. Dominic of Caldwell, N.J., Sisters of St. Francis of Philadelphia, Sisters of St. Joseph of Brentwood, Sisters of the Holy Names, Sisters of the Presentation of the Blessed Virgin Mary, Stewart W. Taggart, SumOfUs, Sustainvest Asset Management, International Brotherhood of Teamsters, The Sustainability Group, Trillium Asset Management, Trinity Church Wall Street, Trinity Health, United Auto Workers' Retiree Medical Benefits Trust, Unitarian Universalists, United Church Funds, United Steelworkers, Walden Asset Management, Wespath Investment Management, William Rosenfeld, Women's Inclusion Project, and Zevin Asset Management.

Research and editorial support were provided by As You Sow staff members Andrew Behar, Danielle Fugere, Conrad MacKerron, Betsy McMahon, Sarah Milne, Jill Courtenay, Rosanna Landis Weaver, and media consultant Stefanie Spear; Si2's research director, Robin Young and Si2 editor Carolyn Mathiasen.

In addition, the authors want to extend special thanks to those who contributed additional information or otherwise helped in the production, including John Opet at art270, Julie Wokaty of the Interfaith Center on Corporate Responsibility, who was invaluable in providing information about faith-based organizations' work, and Rob Berridge and Dan Mitler of Ceres.

TABLE OF CONTENTS

Updates on Information in *Proxy Preview*

Information about the proposals and companies mentioned in the *Proxy Preview* was accurate as of February 15, 2019 Many ongoing negotiations between companies and proponents, plus action at the Securities and Exchange Commission, will change the final tally of proposals that will appear in proxy statements for investors to consider. *Proxy Preview* is unable to provide updates about the ongoing staus of all 28 of all proposals—for updates on proposals at select companies, follow our Proxy Season Updates at www.proxypreview.org.

LETTER FROM THE PUBLISHER

As critical environmental and social systems reach breaking points, investors once again are using shareholder resolutions as a means to flag key risks for companies and markets around the world. However, this year has a different tone—an increased intensity. Time seems to be running out.

Proposals highlight three levels of systemic impact—the individual, society and the planet. For individuals, there are increasing links between disease and long-term exposure to chemicals and pesticides. For society, systemic racism, discrimination and the privileges of the very few are exacerbating old, persistent rifts. For the planet, corporate dumping in the commons is pressing us past the point of no return—changing the climate, killing the ocean and collapsing ecosystems.

Interconnected systems are all at risk. Now, more than ever, corporate leaders must listen carefully to shareholders who offer collaboration and ideas to create a safe, just and sustainable future. Employees want to see their personal values reflected in corporate contracts and policies. Customers want companies to explain how they are solving social and environmental problems—and voting with their wallets when they don't. Companies can't afford to write off ideas for managing these risks.

As this 15th edition of *Proxy Preview* shows, shareholder proponents' tenacity, passion and wide range of interests persists. As always, resolutions capture the zeitgeist. They address fair pay and working conditions, immigration and the penal system, board and workplace diversity, toxic media platforms, the opioid epidemic, high drug prices, ethical finance, corporate political influence, animal testing, toxic food, deforestation, plastic pollution, water and climate change. They also ask hard questions about how companies govern themselves to address these issues—and what they tell us about mitigating negative impacts and uncovering new value propositions.

The 2019 shareholder resolutions demand urgent attention from many stakeholders, from all shareholders and especially from the largest asset owners who control so much of the market. While big mutual funds have begun to weigh in on critical global market risks raised in resolutions, with bold public statements from some, most remain reluctant to exercise their proxy voting power. This abdication of responsibility needs to change; those that allow these trends to continue are complicit in the outcomes.

Many corporate leaders and large asset owners seem bound by stereotypes about shareholder advocates who file resolutions. The overwhelming majority of resolutions are filed by long-term investors who contend that profit and good corporate citizenship go hand in hand. Shareholder resolutions have an extraordinary 40-year track record of often being the first to identify risk and offer recommendations regarding critical environmental, social and governance issues that affect society and the bottom line. Resolutions are not intrinsically adversarial, although many companies view them that way, yet more and more companies are working cooperatively with proponents and seeing the benefits that can bring.

As share*Owners* we strive to work together with management to find solutions that help create a livable world that will allow both businesses and future generations to thrive.

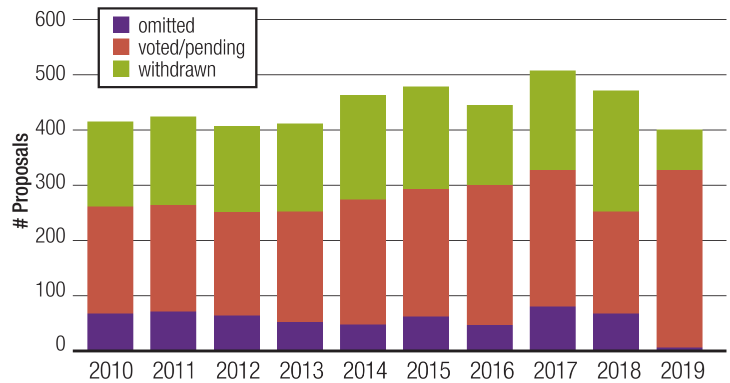
Andrew Behar
CEO, *As You Sow*

EXECUTIVE SUMMARY

Proponents have filed at least 386 shareholder resolutions on environmental, social and sustainability issues for the 2019 proxy season, with 303 still pending as of February 15. Securities and Exchange Commission (SEC) staff have allowed the omission of only six proposals so far in the face of company challenges, far fewer than the 27 omitted at this point last year because the SEC was included in the recent six-week government shutdown. Companies have lodged objections to at least 54 more proposals that have yet to be decided.

Proponents have already withdrawn more proposals than they had last year—71, up from 62 in mid-February 2018. Usually these are a sign that proponents and companies have reached an agreement.

Environmental, Social & Sustainability Resolutions

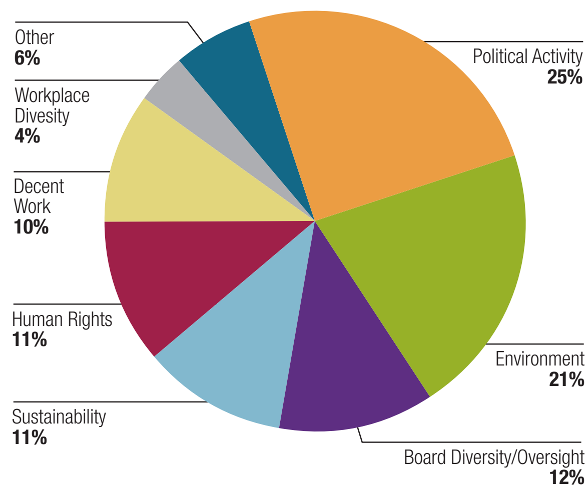


Excludes 56 not voted for other reasons. As of 2-15-19

Last year, the overall tally of resolutions reached 460 by year's end, down from 494 in 2017. The proportion voted on dropped by 10 percentage points, to 177 resolutions, the lowest level of the decade and well below a high of 243 in 2016. Proponents withdrew 210 resolutions in 2018, nearly half of all they filed. Companies omitted a total of 65 proposals after SEC challenges in 2018, down from 77 in 2017. *(Bar chart)*

Corporate political activity and environmental proposals (mostly on climate change) account for just under half of the resolutions this year. The categories of board diversity and oversight, sustainability, human rights and decent work each contribute about 10 to 12 percent. Diversity in the workplace makes up another 4 percent of proposals. The remainder are about health issues, media concerns, ethical finance and animal testing. *(Pie chart)*

Social, Environmental & Sustainability Shareholder Proposals in 2019

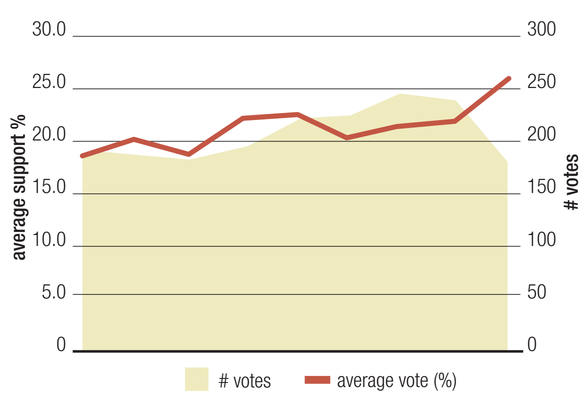


n=386, as of 2-15-19

Key Recent Developments

Mutual funds voting: Several of the huge mutual funds that have influential stakes in nearly every corner of the American financial markets have begun to pay attention to proxy voting on environmental, social and sustainability issues. This started in 2017 with votes supporting climate change and last year expanded to include proposals about the opioid epidemic and gun control. This pushed average support to more than 25 percent. Votes in 2019 are likely to be high, as well.

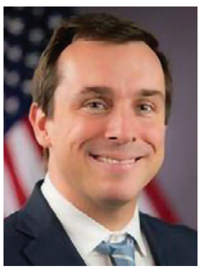
Average Support and Votes



Possible changes to the proxy voting process: Growing votes, combined with Republican control of the White House and both houses of Congress until last fall's election, seem to have sparked a backlash. Some trade organizations and business groups express the belief that many shareholder proposals create a bothersome distraction for boards and companies; they are continuing to press for changes to tighten up the SEC's Shareholder Proposal Rule arguing that the proxy process is badly in need of an update. (The last rulemaking was in 1998, just as the Internet was taking hold and many agree some technical changes would improve the process, but there are significant differences of opinion about whether and how the filing and resubmission of proposals should be changed.)

Any change in the process likely would have to come from rulemaking by the SEC. One indicator of change is the shifting interpretation by SEC staff of what may be included in proposals, explained in interpretive bulletins released by the commission in late 2017 and 2018. Another was an SEC roundtable in mid-November where investors and companies exchanged fire over whether the process is broken. (The commission is continuing to invite comments, which can be viewed on the SEC website.) Meanwhile, on Capitol Hill, a bill that could impose some restrictions on proxy advisory firms that make voting recommendations on resolutions, passed the House in 2017 and proceeded to the Senate, which held a hearing last December that largely replayed the viewpoints set out at the SEC roundtable. *(See p. 15 for more.)*

expertinsight



INVESTORS DETERMINE MATERIALITY

ROB JACKSON

Commissioner, U.S. Securities and Exchange Commission (SEC)

We are at a crucial moment in the history and future of our securities laws. I am delighted to have a chance to share my thoughts on the critical work that Proxy Preview is doing to help investors hold American corporations accountable to ordinary American investors.

A common refrain among corporate counsels is that certain issues are insufficiently important to warrant a dialogue with investors. It's a familiar pattern: investors express interest in a subject, but corporate lawyers—bolstered by bureaucrats in Washington—respond that your proposal is immaterial "social policy." This argument is contrary to both the history and purpose of American securities law. And I want to call upon all investors to continue their fight to prove it.

Of course it's true that materiality—the importance of a subject to a reasonable investor—is the touchtone of our securities laws. But too much of corporate America has forgotten *who decides* what is material. During my first year in office as an SEC commissioner, I have been astonished by corporate lawyers' comfort with speculation about what is or is not important to investors. With reference to little more than their own guesswork or personal value system, many counsels—and even fellow Commissioners—seize for themselves the judgment about what's important to investors.

The hubris implicit in that approach has produced some of the more head-shaking episodes in the history of our Division of Corporation Finance. It was that argument that briefly persuaded the Division that proposals related to executive pay were too related to the company's ordinary business operations to warrant a shareholder vote. Similar thinking drove the Division to exclude proposals on disclosure of corporate political spending for years. But the investors behind those proposals kept fighting—which is why corporations regularly disclose in both areas today.

So I want to remind everyone, and the corporate counsels with whom shareholder proponents engage with each year, that it is the *investor* who tells us what's important. It is not the SEC's role to impose from Washington the views of Commissioners about what's important upon millions of American investors. We should be looking to the issues that investors deem important—the proposals most frequently raised by shareholder proponents, the disclosures that stock returns show are meaningful—when deciding these matters. History has always looked unkindly upon the SEC when we take the other approach.

We need help from shareholder proponents and investors who support them. If I'm right that investors should help determine what's important to investors, the future of American corporate transparency is very much in investors' hands. Although you, the investors, may sometimes feel discouraged, I ask you to keep up the fight. Keep communicating with management, making your case, explaining to corporate counsel and us at the SEC why you're asking for the information you do. History shows that it makes all the difference for the transparency of the corporations that will define our economic future.

New Proposals and Questions for 2019

Climate change: This issue is still a major feature of the proxy season, but there are fewer climate-related proposals in 2019, although some escalated the issue by including Paris-compliant transition language. It remains unclear if proposals seeking greenhouse gas emission goals will be struck down by the SEC following a surprise decision in 2018; several reformulated goals proposals will provide test cases. The New York City pension funds decided not to wait for the commission to weigh in and sued **TransDigm** in December to force the inclusion of a GHG goals proposal; the company ultimately settled, but similar cases may occur—pushing questions to the courts.

Environmental management: Plastic "nurdles" (also known as pellets) are being targeted as pollution that should be controlled at four petrochemical companies in a new campaign.

Corporate influence spending: Proponents of more corporate oversight and disclosure of election spending have revved up their longstanding campaign and filed a record 57 resolutions this year, double what was filed last year, although lobbying proposal numbers are down.

Decent work: Last year's surge in gender pay equity proposals is continuing and a new resolution asks companies not to require mandatory arbitration and non-disclosure agreements, which proponents say is particularly harmful for victims of sexual misconduct but also can allow other malfeasance to fester.

Diversity at work: Half as many resolutions as in 2018 have been filed so far seeking data on gender, race and ethnicity of employees, but a new proposal is specifically targeting diversity in management.

Health: The Investors for Opioid Accountability coalition, in its second year, got an early win with a 60.5 percent vote at **Walgreens Boots Alliance** in January for a resolution seeking risk management disclosures. Its campaign at opioid makers, distributors and treatment makers continues, after two majority votes last year.

Human rights: New proposals ask about immigrant rights and detention, and online child sexual exploitation. New proposals at travel companies **Booking** and **TripAdvisor** ask how they avoid complicity in conflict zones.

Media: **Alphabet**, **Facebook** and **Twitter** continue to face questions about how they manage content and address risks posed by those who use their platforms to secretly influence elections and disseminate hate speech. **Amazon.com** is being asked about facial recognition software used by U.S. Immigration and Customs Enforcement (ICE) in a new proposal.

Board diversity and oversight: Alongside continued requests to diversify board nominees is a notable request to include sexual orientation and gender identity in the definition of desired diversity for directors. New proposals also raise pointed questions about a wide range of hot button issues—racism, immigrant detention, drug pricing and the social impact of **Amazon.com's** business—with many SEC challenges.

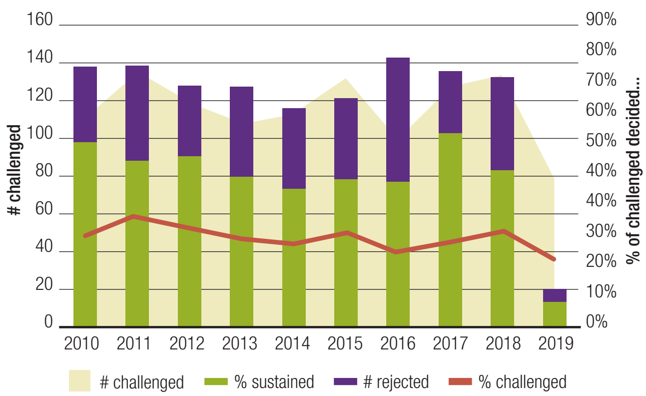
Sustainability disclosure and management: Proponents are testing out a new idea—asking for reporting using the metrics defined as material by the Sustainability Accounting Standards Board (SASB). Resolutions about tying executive pay to a wide range of issues continue.

SEC Challenges

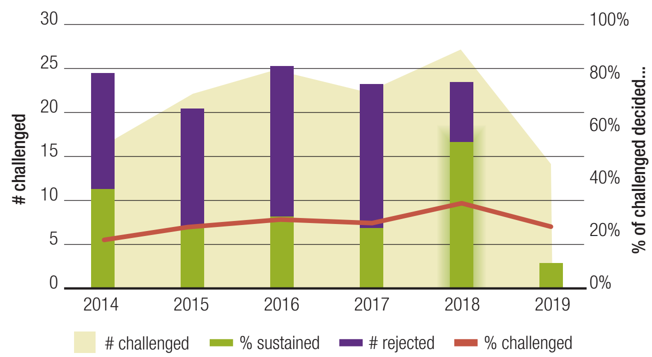
The ultimate impact of the SEC's new clarifications of the Shareholder Proposal Rule in 2017 and 2018 remains to be seen. Overall, the new approaches did not substantially affect the outcome of challenges in 2018 *(left graph)*; this was not true for climate-related proposals, however, which were disproportionately affected *(right graph)*.

All are hampered by the lasting impacts from the six week government shutdown that has left the SEC far behind in responding to 2019 company challenges. Incomplete figures based on data gathered by Si2 from proponents suggest that three-quarters of the challenges have yet to be decided, significantly lagging where things stood at this point in years past.

SEC Challenges



SEC Challenges on Climate Change



Overview and New Issues in 2019

This section provides a look at the main issues raised in each of the topics covered in this report, giving special attention to new issues and continuing points of contention about the Security and Exchange Commission's shift in interpretation of its Shareholder Proposal Rule, set out in two Staff Legal Bulletins issued in the last two years. *(See p. 15 for more on these changes.)*

Environment

The topic of climate change makes up the vast majority of resolutions filed on environmental issues and undergirds many other corners of shareholder activity this proxy season.

Climate change: The number of proposals specifically concerned with climate change has dropped to 60, down from 83 last year, although as in the past climate change also is raised in other proposals about sustainability disclosure and in a few on lobbying. Proponents seek information about how companies are managing greenhouse gas (GHG) emissions and carbon asset risks, and want to know how companies plan to adapt their business models to be Paris-compliant and address our changing climate.

GHG emissions—Last year, the SEC upended years of precedent when it told **EOG Resources** on February 26, 2018 that a resolution asking it to adopt GHG goals concerned ordinary business, by seeking to "micromanage" the company. The exclusion allowed for proposals judged to raise mundane ordinary business issues not suitable for shareholder involvement is the ground for omission cited most frequently of the 13 listed in the shareholder proposal rule. The EOG letter followed the Nov. 1, 2017, SEC Staff Legal Bulletin 14I asking for board analysis of whether the underlying issue raised to a resolution is significant enough to transcend the mundane. That was followed by a second Staff Bulletin, 14J, Oct. 23, 2018, clarifying the first and discussing more fully the issue of micromanagement.

The EOG letter came too late to affect similar resolutions last year, since companies with similar proposals already had lodged their objections, but companies took note and the EOG letter features in many challenges this year, which are still to be decided. Proponents have reformulated some of their GHG goals requests this year, but 11 companies have received the basic, longstanding request to set quantitative, time-bound reduction goals; all invoke consideration of the Paris Climate Agreement. Five more ask energy companies about how they plan to lighten their carbon footprints, also keeping Paris in mind. Four more want reports on GHG targets.

A new resolution at three banks asks them to limit their financing on "extreme fossil fuel projects" in the Arctic, Canada's oil sands and for coal; two challenges are outstanding.

In all, 19 GHG emissions proposals are pending and four have been withdrawn so far.

Methane-related resolutions have largely dried up as companies have reported more about their oil and gas operations that use hydraulic fracturing, although not all critics are assuaged. There have been two withdrawals and the only vote on the issue may be that which already has taken place at **Atmos Energy**, 34.8 percent on February 6. In an ironic twist after last year, **EOG Resources** this year sat down with proponents and has agreed to set qualitative and quantitative methane reduction targets.

Carbon asset risk—Proponents filed and then withdrew a swath of proposals last year seeking reports about how energy, utility and other firms plan to adapt to the low-carbon economy needed to meet the Paris treaty goals. The release of the Financial Stability Board's recommendations for climate scenario reporting, backed by financial interests with more than $81 trillion in assets appears to have persuaded many companies to report, as did the 2017 majority votes at **ExxonMobil** and **Occidental Petroleum**. But because most assessments of current corporate reporting on climate change adaptation find it falls short of what is needed to avoid large scale disruption, proponents are persisting with resolutions seeking reports about transitions compliant with the Paris agreement. In all, 11 carbon asset risk resolutions are now pending and proponents have withdrawn eight. One has been omitted on technical grounds.

Eight filings ask how companies will help to limit temperature increases to "no more than" or "well below" 2 degrees Celsius. Four more ask for specific annual reporting on metrics gauging risks. A new variant is before **Amazon.com**, citing problems it has experienced from extreme weather. Another new resolution about the effects extreme storm-induced flooding may have on petrochemical facilities is at **DowDupont** and **ExxonMobil**, while another puts **Duke Energy** on the spot about public health risks from flooded ash waste ponds, which occurred in September 2018 during Hurricane Florence, the wettest tropical cyclone ever to hit the Carolinas.

Renewable and efficient energy—Nine proposals ask for reports on energy efficiency and renewable energy goals, at food firms, industrialists and retailers. Proponents still want to see more renewable energy use, but may be stymied by the SEC's view, expressed last year, that renewable energy goals at three companies were a matter of ordinary business. Agreements have produced four withdrawals so far, at **Archer Daniels Midland**, **Dollar General**, **Goodyear Tire & Rubber** and **Verizon Communications**. Five more are pending.

Deforestation—Concerns about how food production contributes to deforestation, chipping away at carbon sinks, have prompted some companies to pledge they will source only from sustainably grown commodities. **Aramark** has agreed to report using quantitative metrics about its supply chain, prompting Green Century Capital Management to withdraw its proposal, but a resolution seeking a similar report is pending at three more food firms, including one about cocoa at **Mondelēz International**, owner of Cadbury.

Sustainable energy access—While deforestation raises environmental and human rights concerns, another new proposal also addresses sustainable development, asking **ExxonMobil** what it is doing to alleviate "energy poverty" by offering sustainable energy solutions.

Environmental management: Nine of the 13 proposals about environmental management issues beyond climate change concern waste. Five proposals face SEC challenges that have yet to be decided and one has been omitted on technical grounds. Twelve are now pending and one has been omitted.

"Nurdles"—As You Sow has a new proposal aiming to curb plastic pollution from pre-production plastics pellets known as "nurdles" generated by **Chevron**, **DowDupont**, **ExxonMobil** and **Phillips 66**. Three challenges are outstanding, arguing it is an ordinary business issue or cannot be addressed given joint venture production arrangements.

Four more proposals seek reports from food and restaurant companies on packaging and recycling, including at a new target, seasoning and spice company **McCormick**, which is swapping out glass and metal containers for plastic to meet carbon reduction goals but at the same time raising concern about what will become of the plastic replacements.

Water—Only two water risk proposals are on tap for 2019. One is at **Energen**, where a methane proposal about its oil and gas operations earned a near majority back in 2011. This time, proponents want to know how the company is handling water risks given its usage with hydraulic fracturing in arid areas. The other regards polluted effluent at **Pilgrim's Pride** chicken processing plants.

Nuclear power—The only proposal now pending about nuclear power asks **PNM Resources** about a leasing arrangement tied up in litigation before the New Mexico Supreme Court, which proponents say might leave investors on the hook for decommissioning the Palo Verde nuclear plant, a longtime target of critics.

Industrial agriculture:

Farming practices—After two years of strong votes (43.1 percent last year) and a purchasing community showing increasing preference for antibiotic-free meat, As You Sow has withdrawn a proposal at chicken producer **Sanderson Farms**. Last year the company was still disputing that antibiotics in animal feed have a negative impact on human health, but it now has agreed to a report on a possible phaseout. A similar agreement was reached at **Costco**. But **Domino's Pizza** is invoking the SEC's new stance on "micromanagement," which allows for exclusion of proposals that impose specific timeframes or require intricately detailed studies. Domino's is seeking the commission's blessing to omit a proposal that wants goals for using more antibiotic-free pork and beef.

Animal products—Harrington Investments wants to rid **Kohl's** and **TJX** of fur with a policy about a cruelty free supply chain, while People for the Ethical Treatment of Animals (PETA) goes further, asking **Bed Bath & Beyond** to use synthetic stuffing instead of down, which it says is inhumanely produced.

Social Issues

Animal testing: Three drug companies have challenged a new proposal from PETA that asks them to stop using the "Forced Swim Test" with animals for the development of antidepressants. The companies argue it concerns ordinary business, is not significant to their operations and (in one case) that the test is not used. It's not clear any will go to votes.

Corporate political activity: Proponents are continuing their longstanding campaigns asking companies about contributions to elections and about lobbying disclosure. They have revved up the campaign to persuade companies to put in place formal oversight and more substantial disclosure about how much they spend to support political candidates, but they have fewer proposals this year about oversight and spending on lobbying lawmakers and regulators after elections. The overall tally on the two issues had been dropping but this year has risen to 93, up from 80 in 2018. The enduring sticking point remains the requested and resisted disclosure of spending by trade groups and other non-profit groups.

Elections and lobbying—Sixteen of the 57 proposals filed using the model of the Center for Corporate Political Accountability (CPA) on election spending are resubmissions; all but two are now pending. A total of 33 ask for similar oversight and disclosure about federal, state and local lobbying; one earned 11.1 percent support at **Tyson Foods** in January and proponents have withdrawn five others after agreements; 25 are pending (two more also ask about elections as well as lobbying).

Additional issues—Three more resolutions raise related issues. One suggests, among other things, that shareholders should be allowed an advisory vote on election-related and PAC spending, at **Intel**. Another is a resubmission to **Citigroup** and **JPMorgan Chase** of an AFL-CIO proposal that seeks to limit "revolving door" rewards for employees who leave to work for the government; these proposals, around since 2015, earned 35 percent last year at Citi and 29.3 percent at JPMorgan.

Last year, a free market activist group, the National Center for Public Policy Research (NCPPR), submitted proposals that used precisely the same resolved clause as the disclosure advocates on lobbying, but approached the issue from the opposite standpoint of encouraging lobbying. The NCPPR proposals pre-empted mainstream proposals filed later. This year, the NCPPR copy-cat proposal has surfaced again, but is likely to exclude only one mainstream proposal, at **Pfizer**. (NCPPR filed second at **Honeywell**.)

Critical SEC questions—Last year at this time, it was unclear whether companies would be able to use the SEC's new interpretation of the Shareholder Proposal Rule laid out in Staff Legal Bulletin 14I to redefine what constitutes "significantly related" regarding political activity proposals. In addition to clarifying the staff view of the ordinary business exclusion, the bulletin was intended to clarify the section of the rule that allows companies to omit resolutions judged "not significantly related" to their business. Four companies unsuccessfully argued their political expenditures were insignificant, with some also saying that investors are just not interested in the disclosure sought by proponents. The SEC demurred, which relieved proponents, but in doing so it noted previous levels of support of 20 percent or more—potentially signaling an interest in increasing the resubmission thresholds, which for more than 50 years have required that first year proposals earn at least 3 percent to qualify for resubmission, 6 percent the second year and 10 percent in each year thereafter. While the SEC has made no formal rulemaking proposal for reforms yet, some movement in that direction has occurred. *(See box, p. 15 for more)*.

This year, **Pfizer** is trying to apply the SEC's "micromanagement" interpretation voiced at EOG Resources last year. Pfizer says the lobbying resolution is too detailed and therefore constitutes ordinary business.

Decent work: Growing economic inequality in the United States, which is more acute for women and racial and ethnic minorities, along with the #MeToo movement's demand for equal treatment—and, implicitly, equal pay—have driven a surge of resolutions about pay equity and working conditions since 2014. Thirty-one of the 38 proposals about decent work are now pending and five have been withdrawn.

Pay equity—Ten of the 29 proposals on pay equity are resubmissions and proponents have withdrawn four so far, mostly at tech and financial sector firms. New this year is a modified request to provide data on the global median gender pay gap (six companies), while others ask about the risks posed by such a gap. Most focus on women, but some also raise differential pay rates for people of color. Some companies have agreed to take substantive action. **Pfizer**, for instance, is hiring an outside firm to look at its global workforce regarding gender, and at race domestically—and plans to report by next year. As a result, Proxy Impact withdrew its proposal; three other firms, including **Citigroup**, also have agreed on more disclosure and proponents have withdrawn.

"Inequitable employment practices"—The New York City pension funds and the federation of labor unions Change to Win have filed a new proposal at seven companies, asking for an end to mandatory arbitration and non-disclosure agreements; six are now pending, with a challenge from **Yum Brands** that contends the proposal concerns ordinary business and is insignificant. The concern is that these arrangements contribute to a hostile work environment and may hide serious problems such as sexual misconduct and other malfeasance. An additional proposal to **McDonald's** asks for a report on mandatory arbitration, noting that all 50 state attorneys general support an end to its in cases of sexual harassment.

Diversity in the workplace: Half as many proposals address workplace diversity data this year—just 16, down from 34 in 2018. They ask for current workforce breakdowns and/or what companies are doing to provide for more equal representation by women and minorities. Four of five EEO proposals filed by Trillium Asset Management are pending. **Home Depot** faces a disclosure proposal that is pending for a record 18th time; last year it earned 48.3 percent.

New SASB metrics—One of two test resolutions is pending at **Fastenal**. As You Sow is asking for diversity data on metrics determined by the Sustainability Accounting Standards Board (SASB) to be material to the company's sector.

Executive diversity—Trillium Asset Management has a new proposition pending at five companies asking for reports on efforts to diversify upper management.

LGBTQ protections—Walden Asset Management wants the health care management services firm **CorVel** to assess the impact of its policy that does not have explicit protections for LGBTQ employees in place. It argues in a new proposal that affected employees face a patchwork of state laws about equal rights and mixed signals from the federal government. This is the only issue on LGBTQ workers' rights offered this year; 30 were proposed as recently as 2012. However, several of the board diversity proposals ask about LGBTQ representation.

Ethical finance: Trillium has a new resolution asking about overdraft fees and their differential impact on poor and minority communities at **Bank of America** and **JPMorgan Chase**, and is asking for more transparency about the proceeds from the federal tax reform legislation at **Gilead Sciences**. A further banking ethics proposal from Harrington Investments also seeks a report on company practices at **Wells Fargo**.

Health: The Investors for Opioid Accountability (IOA) campaign, led by Mercy Investments and the UAW Retirees' Medical Benefit Trust, is now in its second year and boasts support from 53 members with $3.4 trillion in assets. It continues to seek corporate governance reforms and disclosure at opioid-connected firms. In January, investors gave 60.5 percent support to a proposal at **Walgreens Boots Alliance** about more effective monitoring and management of risks related to its role as a distributor, following a similar vote at **Rite Aid** last fall. Another proposal at **Insys Therapeutics** is pending and one at **AmerisourceBergen** has been withdrawn.

Other health proposals include a pending repeat at **Altria** that seeks a report on nicotine levels and efforts to reduce them in its tobacco products. Further, The UAW Trust has withdrawn a new resolution at **Johnson & Johnson** about allegations that it tried to delay generic drug competitors, after the company provided more disclosure. *(Additional proposals on drug pricing seek links to pay, covered under Governance below.)* Another new proposal is still pending on the health effects of sugary products at **Coca-Cola**; it faces an SEC challenge.

Human rights: After a dip in 2018, investors have doubled down on human rights this year, with new resolutions on immigrant rights and detention, child sexual exploitation, hate speech and privacy. Forty-four proposals have been filed, nine have been withdrawn and 33 are pending; two have gone to votes.

Risk and impact assessments—Proponents this year are citing new reports that compare and score firms on their adherence to international standards to identify human rights risks and avoid or manage them effectively—such as Know the Chain on forced labor and the Corporate Human Rights Benchmark that rates the 100 largest global agriculture, extractives and apparel companies. Proponents have targeted firms with particularly low scores.

A new resolution from Azzad Asset Management asks **Alphabet** about Google's development of a censored search engine in China. Azzad also has a first-ever proposal at consultant **Booz Allen Hamilton**, saying it needs a human rights policy given its record of advising the Saudi Arabian government, which has been implicated in the alleged murder of journalist Jamal Khashoggi. Withdrawals following agreements have occurred at **Dunkin' Brands** and **Southwest Airlines**.

Conflict zones—Four of the five resolutions filed on conflict zone operations are pending. These include a new proposal to travel companies **Booking Holding** and **TripAdvisor**, both of which carry listings in zones rife with civil strife and human rights violations, such as the Democratic Republic of Congo, Iraq, Myanmar and the Palestinian Occupied Territories. It asks how the companies make decisions to stay in fraught areas and how they monitor their presence there to avoid being complicit in abuses.

Immigration and the penal system—The intense public debate over immigration and border security has spilled over into proxy season. After agreements, the Service Employees International Union (SEIU) withdrew a new resolution at **Bank of America** and **Wells Fargo**, which both lend to private prison companies involved in the detention of immigrants under President Trump's policies. A resolution from inmate rights advocate Alex Friedman is proposing that private prison firms **CoreCivic** and **GEO Group** not participate in the detention of migrant children or their parents, but the proposal faces a challenge from each company and its fate remains uncertain. The Jesuit Conference has a second proposal at **GEO** about inmate and detainee rights, which cites problems at a California facility last fall.

Taking another new approach, the Sisters of St. Dominic of Caldwell, N.J., want **Northrop Grumman** to report on how its human rights policy is being implemented, given the company's contract to develop a biometric identification system for the Department of Homeland Security. The company has lodged a challenge contending the proposal is ordinary business.

Prison labor—Northstar Asset Management persuaded **Costco Wholesale** to adopt a policy on domestic prison labor sourced goods last year, but now wants the company to provide a report on suppliers' compliance; this resolution received 28.7 percent in January, a big jump from last year's 4.8 percent. Northstar withdrew after cordial discussions at **IBM** but has two other pending proposals on prison laborers, and the Nathan Cummings Foundation wants to see guidelines and more transparency about this issue from **Walmart**.

Human trafficking—Christian Brothers Investment Services (CBIS), Proxy Impact and faith-based investors have a new proposal about online child sexual exploitation at tech and telecom firms. CBIS withdrew at **Apple** but the group's proposal seeking an assessment of company risk management is pending at **Sprint** and **Verizon Communications**.

Right to water—**Chevron** faces a new resolution seeking information on how it addresses the human right to water in its operations, from the Sisters of St. Francis of Philadelphia.

Hate speech and related products—A new resolution from the Nathan Cummings Foundation asks **Amazon.com** about how it addresses the spread of hate speech and restricts related products.

Media: The "big three" social media firms—**Alphabet**, **Facebook** and **Twitter**—face resubmitted proposals asking for reports on how they manage problematic content. The resolutions have been updated with current references to election meddling, hate speech and other abusive content, which the resolution characterizes as presenting significant business risks to all three firms.

A new privacy proposal from the Sisters of St. Joseph of Brentwood asks **Amazon.com** to prohibit the sale of its Rekognition facial recognition software to governments if it cannot determine that civil and human rights will be protected. The proposal notes that Amazon provides cloud computing services to the Immigration and Customs Enforcement Agency, and says it therefore could be become connected to immigrant surveillance and racial profiling controversies.

Sustainable Governance

Board diversity: At least 28 proposals ask companies to report on or adopt policies to encourage greater diversity on boards of directors, nearly all at new recipients; 24 are pending. All but a few ask for reports on how boards are trying to diversify their mix of nominees. Notable are four proposals from As You Sow on behalf of Amalgamated Bank that include sexual orientation and gender identity in the definition of diversity, at **Caesars Entertainment**, **Eastman Kodak**, **New Media Investment Group** and **Skechers U.S.A**. All mention gender, race and ethnicity.

The New York City pension funds are continuing a campaign begun last year to persuade companies to disclose the race, gender and ethnicity of board directors and nominees, as well as other strategically relevant attributes, in a matrix presented in the proxy statement. This proposal survived an SEC challenge last year from **ExxonMobil**. This year, eight companies have received the proposal and it has been withdrawn following agreements so far at **Minerals Technologies** and **Noble Energy**. *(A version from political conservatives that asks about reporting on "ideological diversity" is noted below.)*

Board composition and oversight: Thirteen resolutions ask for specific types of board oversight, up from seven last year; three more request particular types of board member expertise. This covers ground familiar from past proxy seasons and companies do not appear to like the resolutions; there are SEC challenges lodged against all but three, with seven still to be decided. Eight are now pending and four have been withdrawn.

The most striking characteristic of these proposals is that each raises a hot button issue of intense public debate, which the proponents think company boards are not handling well. This ranges from processing transactions for white supremacists (pending at **Mastercard**) to funding contractors that help carry out "zero tolerance" U.S. immigration policies (withdrawn at **SunTrust Banks**). The issue is drug pricing at **AbbVie** (withdrawn after a pledge for more proxy statement disclosure). At **McDonald's**, it's "food integrity" (challenged). At **Amazon.com**, it says a "social risk oversight committee" should assess the societal consequences of company's business model and offer guidance on strategic decisions; with Amazon's February 15 decision to cancel its plan to locate a new headquarters in New York City, this carries particular piquancy.

The AFL-CIO also suggests that Amazon.com would benefit by amending its corporate governance guidelines to add human capital management to the set of skills it considers important for directors, pointing to BlackRock's focus on the subject as an engagement priority and the new Human Capital Management Coalition, which submitted a petition to the SEC in July 2017 asking for more corporate disclosure on such issues; the coalition is backed by investors with $2.8 trillion.

Sustainability oversight and disclosure: Last year, as reporting requests surged to 58, more of the sustainability disclosure and management proposals were withdrawn than went to votes. This year, 33 of 44 proposals filed are now pending and nine have been withdrawn. All ask for financially material or "the most important" sustainability data, while six specify climate change metrics should be included (three of these are still pending, at **Charter Communications**, **Mid-American Apartment Communities** and **Middleby**, where last year it earned 57.2 percent). All but five of the targets are new.

Sustainability Accounting Standards Board (SASB) variants—New this year are five resolutions that ask companies to report using SASB-defined metrics for particular industries. One was withdrawn at **PACCAR** after it released such a report and the other four are pending, although **Advance Auto** has a pending SEC challenge.

Tailored ideas—New and tailored sustainability reporting resolutions have been less likely to appear in proxy statements and that is again true for three this year. One at **Amazon.com** that, like the board oversight proposal noted above, asks about the company's societal impact—but it faces an "ordinary business" challenge similar to one that succeeded before. Most notable otherwise was a **Walgreens Boots Alliance** proposal tying questions about tobacco sales to the company's commitment to the UN Sustainable Development Goals, but the SEC agreed the company's reporting made it moot.

ESG pay links—The big increase last year in proposals seeking reports on how executive compensation is linked to sustainability metrics continues, unabated. This year, proponents have filed 20 pay links proposals, about the same as the 22 in 2018. Nine address risks connected to drug price increases (four of these are resubmissions) and another the opioid crisis; three address senior executive diversity and two are about cybersecurity; further issues, with one proposal each, are banking ethics, greenhouse gas emissions goals and human rights.

expertinsight

MICROMANAGEMENT AND EXECUTIVE COMPENSATION CHALLENGES UNDER NEW SEC STAFF BULLETIN

SANFORD LEWIS
Attorney and Director, Shareholder Rights Group

New interpretations by the SEC of the Shareholder Proposal Rule (14a-8) in 2017 led to an increase in omissions of climate proposals last year. There is reason for concern that the number of omissions could increase further in 2019, depending on how the SEC applies its latest SEC Staff Legal Bulletin 14J, issued on October 23, 2018. Key elements include the following:

Micromanagement and board opinions: The bulletin last October elaborated on how the SEC staff will consider micromanagement claims, as well as board opinions regarding the significance of a proposal to a company, for purposes of ordinary business claims. The bulletin references the last full SEC 14a-8 rulemaking in 1998, saying it is bulletin is consistent with the definitions of "ordinary business" and "micromanagement" articulated 20 years ago. However, at that time, proponents expressed concern that the Commission intended to exclude all proposals addressing time frames or specific methods. In a preamble to the final 1998 rule, the SEC sought to dispel those concerns, saying:

> Some commenters thought that the examples cited seemed to imply that all proposals seeking detail, or seeking to promote timeframes or methods, necessarily amount to ordinary business. . . . We did not intend such an implication. **Timing questions, for instance, could involve significant policy where large differences are at stake, and proposals may seek a reasonable level of detail without running afoul of these considerations.**

Yet, many companies are now going to great lengths in no-action requests to describe their complex policies and procedures, and to assert that the board, rather than the proponent and other shareowners, is better able to assess strategy, even on issues of impact to society that have long been appropriate for shareholder deliberation. For instance, will shareholders continue to have a say on whether the company should step up its responses to an environmental issue like climate change by setting goals or time frames for action?

Based on the Commission's 1998 Release as well as the Bulletin, a key question (on "micromanagement" as well as on the significance of the issue to the company) is whether there is a large difference between actions taken by the company and what the proposal requests (referred to in the Bulletin as the "delta"). The proposal process has long played a pivotal role in allowing shareowners to encourage their companies to better address large and long-term strategy questions—issues that are becoming more transparent as environmental, social and governance (ESG) data demonstrate which companies are lagging their peers.

Compensation related proposals: The October Bulletin also noted that proposals relating to executive compensation may be excludable as ordinary business where the focus is on aspects of compensation that are available or apply to the general workforce as well as executives. This has come up with regard to proposals seeking ESG links to executive bonuses and in those about forced arbitration, as well. This is a new criterion of decision, and as with the micromanagement issue, has led to new challenges.

Staff rulings on these requests will shape the proxy statements of 2019. The Staff has a special challenge, since the government shutdown placed the staff weeks behind its usual schedule to review no action requests.

Conservatives

Less information is available at this point in the proxy season than in years past about resolutions proffered by politically conservative groups, given the government shutdown in December and January that temporarily halted the SEC's evaluation of corporate challenges. The proponents do not publicly share information, so posting about challenges to these proposals on the SEC website are a key source of information on them.

Lobbying: As noted above, what has emerged so far are two proposals that use the same resolved clause as the main lobbying disclosure campaign, but praise corporate influence spending as an example of a well-functioning free market. This proposal, from the National Center for Public Policy Research (NCPPR), may go to a vote at **Pfizer**. **Eli Lilly** has challenged it at the SEC, which has yet to respond to the contention the proposal concerns ordinary business; the SEC rejected similar challenges last year.

Board diversity: Conservatives are also copying existing diversity resolutions, but with the opposite intent—so far at **Apple** and **Starbucks**. The proposal says "ideological diversity" is missing and would benefit company boards, which it says reflect a hegemonic corporate culture that "eschews conservative people, thoughts, and values." The SEC rejected Apple's contention the proposal was too vague, moot and related to ordinary business and the proposal will go to an early vote on March 1.

UPDATE ON SHAREHOLDER PROPOSAL RULE REFORM

The SEC, shareholder rights advocates and companies have been jockeying for position about possible changes to the Shareholder Proposal Rule over the last two years, as noted above. New interpretations about proposals have come out in two new legal bulletins from the commission—issued in 2017 and 2018, a formal roundtable has aired opposing views about the need for reform in November, and a Senate hearing considered possible new requirements for proxy advisory firms in December.

SEC Staff Legal Bulletins: Proponents are grappling with the fallout from recent interpretive guidance issued by the SEC's Division of Corporation Finance, the referee which determines if proposals challenged by companies meet the requirements of the Shareholder Proposal Rule *(see Appendix for a listing of substantive and technical grounds for omission)*. SEC Staff Legal Bulletin 14I in November 2017 articulated the staff's current view about what constitutes "ordinary business" and what is "significantly related" to a company, two of the rule's provisions. The bulletin also called for more deliberation by boards of directors on these issues to help shape SEC assessments of what should be in included. In October 2018, Staff Legal Bulletin 14J clarified the earlier guidance.

As discussed above *(p. 8)*, the decision last year at **EOG Resources** reversed longstanding precedent when it said a greenhouse goals proposal would "micromanage" the company, an ordinary business matter, and allowed the proposal's omission. The fate of additional similar proposals about setting greenhouse gas emissions goals this year remains uncertain. In 2018, the overall proportion of omitted proposals did not jump much despite proponents' concerns, but its impact was clearly felt on climate change proposals, where omissions rose significantly *(graph, p. 8)*. In their SEC challenges about 2019 resolutions, companies are arguing that many other issues also seek to micromanage and therefore address ordinary business and can be excluded, citing both bulletins and the EOG letter. No decision has yet emerged.

The question of boards' analysis of a resolution's significance came up in the political activity proposal challenges last year, and in a few others, but did not seem to affect SEC decisions. It was addressed further in the 2018 bulletin, however, and 2019 challenges are providing more information than last year about the nature of board deliberations, which could affect decisions this year.

Sanford Lewis, an attorney working for many of the proponents discussed in this report, penned a legal analysis of the 2017 bulletin in July 2018. He argued it threatens "market-wide" impacts on issues "that could affect corporate risk management and financial and ESG performance." Gibson Dunn, a law firm companies often hire to lodge their challenges, concluded in July that while initial attempts to use the 2017 bulletin to exclude proposals were "generally unsuccessful," they may be going forward.

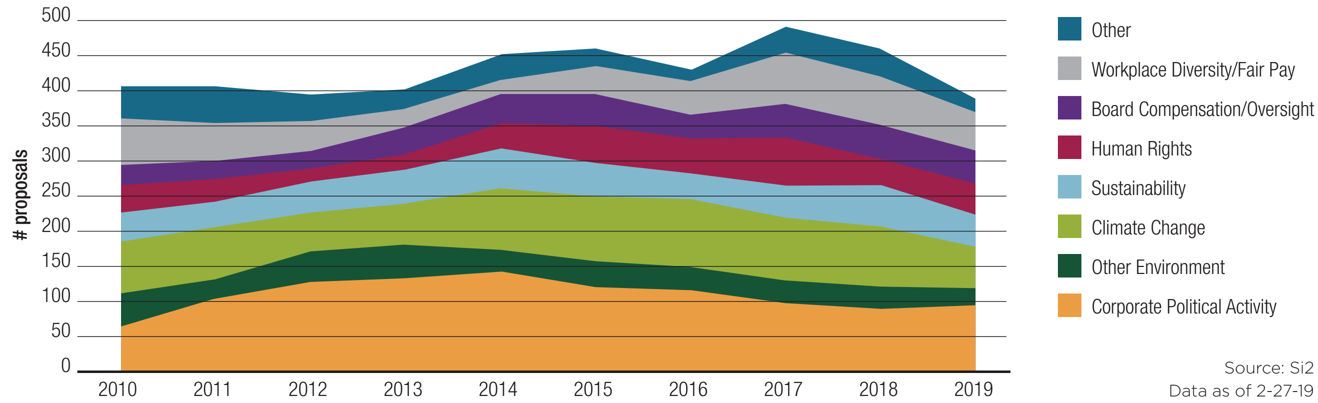
SEC roundtable: SEC chair Jay Clayton said last July, "Shareholder engagement is a hallmark of our public capital markets, and the proxy process is a fundamental component of that engagement." But he said the commission should review the process because more companies are reporting shareholder engagement, on more issues, and the commission needs to determine if current rules are effective. As a result, the commission hosted a roundtable on November 15 to consider proxy voting mechanics and technology, shareholder proposals and "effective shareholder engagement and the role played by proxy advisory firms. (The commission is continuing to invite comments, which can be seen on its website.)

Legislative developments: As noted in the executive summary, some business groups, including the National Association of Manufacturers (NAM), are working to make it more difficult for shareholder resolutions to be filed and reconsidered, and to restrict the activities of proxy advisory firms. But so far they have been unable to pass a law that would affect the process. The House did pass H.R. 4015 in December 2017, regarding proxy advisors; the Senate Banking Committee held a hearing on Dec. 6, 2018, which saw some comments similar to those from the November roundtable. It did not proceed further.

NAM is supporting these efforts with a new entity called the Main Street Investors Coalition (MSIC), asserting shareholder proponents are playing politics to the detriment of good financial returns. The proponents counter they are raising key issues that threaten long-term corporate financial health, alongside harms to the environment and society. Mainstream investment firms and corporate governance experts continue to excoriate Main Street Investors, in acidic terms such as the August blog post from the mutual fund behemoth Morningstar entitled "Attacks on ESG from the Swamp."

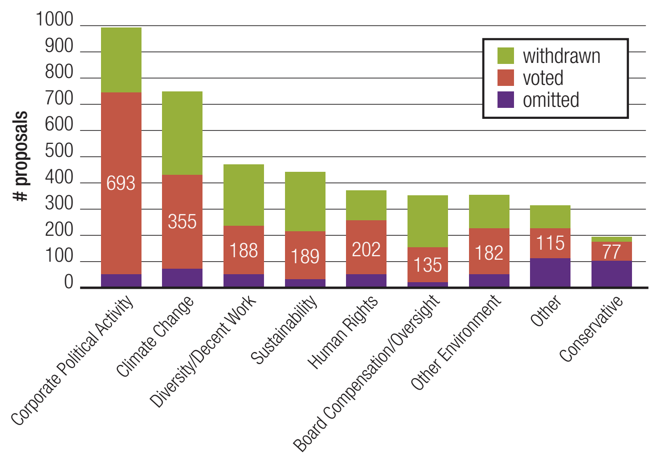
While battle lines in Washington are clear, the outcome is uncertain—largely because longtime proponents of shareholder resolutions now count as allies major players on Wall Street who routinely use environmental and social metrics to make decisions about investments. Investors signed up to the UN Principles for Responsible Investment manage $70 trillion.

Issue Trends, 2010–2019

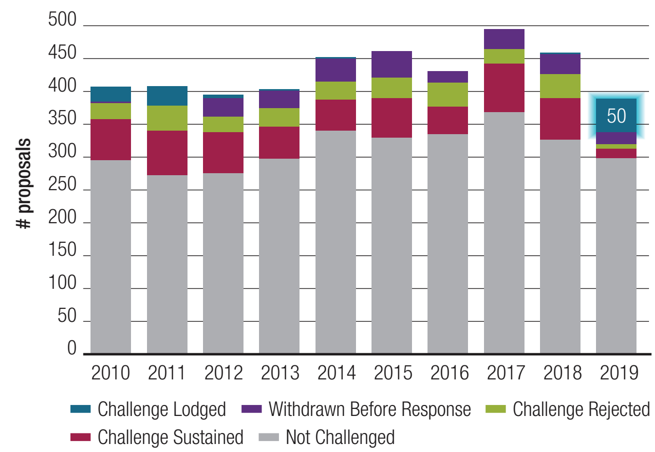


Source: Si2
Data as of 2-27-19

Outcome by Topic, 2010–2019



No-Action Letter Outcomes



Data as of 2-27-19

THE 2019 PROXY SEASON

This section of the report presents information on the 386 shareholder proposals investors have filed as of February 15, 2019 for the 2019 proxy season. Additional proposals for spring votes will show up as the season progresses and a dozen or so more are likely to be filed for meetings that occur after June. Six proposals are included in the aggregate totals but not described in detail since they have yet to be made public by the proponents. The numbers this year are likely lower than normal because of the six-week government shutdown, which included the Securities and Exchange Commission (SEC). The commission is a key source of information about resolutions from new proponents and those not affiliated with known shareholder proponent filers. As noted above, the delay in SEC decisions about company challenges, caused by the government shutdown, means little information has come to light about how the SEC' shifting interpretation of the Shareholder Proposal Rule will play out this proxy season. Nonetheless, Proxy Preview encompasses all known environmental and social shareholder proposals filed to date, to the best of our knowledge.

Structure of the report: Information is presented in three main areas—Environment, Social and Sustainable Governance. A separate section covers Conservatives. We note how many proposals have been filed in each category, which are now pending, how many have been withdrawn for tactical or substantive reasons after negotiated agreements with companies, and the disposition of challenges to the proposals at the SEC under its Shareholder Proposal Rule. Rule 14a-8 of the 1934 Securities and Exchange Act allows companies to omit proposals from their proxy statements if they fall into certain categories such as dealing with mundane, "ordinary business" issues. *(visit www.proxypreview.org for more details on the rule.)*

Analysis in this report focuses on the resolved clauses and how these compare to previous proposals, as well as previous support for resubmitted resolutions and new developments. We pay special attention in 2019 to potential reinterpretations of the omission rules, given the release of two guidance documents from the SEC, Staff Legal Bulletin 14I from Nov. 1, 2017, which set out a new approach now being taken by the commission's Division of Corporation Finance about whether a resolution concerns "ordinary business" or is "significantly related" to company business. Staff Legal Bulletin 14J, issued on October 23, 2018, further clarified the SEC's views. *(More on p. 14-15.)*

Key information—Within each section, tables present key data: each company, the resolution, the primary sponsor and the current status of the proposal, alongside its status and the estimated meeting month.

Voting eligibility—To vote on proposals, investors must own the stock as of the "record date" set by the company, about eight weeks before the meeting. It is noted in each proxy statement.

Environmental Issues

Climate change continues to be central to most of shareholder proponents' concerns on the environment. The climate conversation in the proxy process remains focused on greenhouse gas emissions management, Paris-compliant transition planning and carbon asset risk, with these subjects accounting for three-quarters of the 58 proposals filed. The overall figure is down from 82 last year and in 2017, and from 90 in 2016, although most broadly construed sustainability proposals that include greenhouse gas goals references mean the drop is not as steep as it might appear. Many companies have begun to take actions to address climate change risks, as well, thinning the list of targets; others also are engaging in ongoing dialogue with investors about how to address climate change risks and opportunities, meaning a shareholder resolution is less likely. (Last year, proponents withdrew more resolutions than went to votes. See graph below.) Environmental management issues outside the climate change framework include 13 proposals this year, down from 31 last year and two dozen in 2016. Another eight proposals address industrial food production.

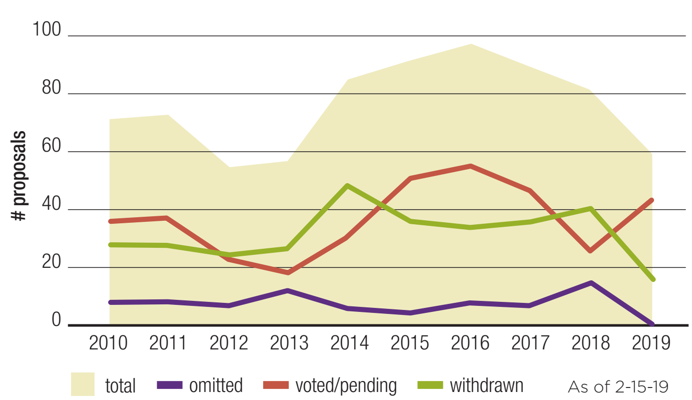
(The section on Sustainable Governance, p. 60, examines 44 related reporting proposals, most of which also request more transparency from companies about environmental management at their own operations and in their supply chains, in conjunction with reporting on social and other issues.)

CLIMATE CHANGE

As average global temperatures continue to rise and the disasterous effects threaten major population centers and significant geographical regions, investors are continuing their efforts to enlist companies in the fight to lessen the worst effects. In the United States, political barriers to climate action continue to abound. President Trump not only denies climate science, but also has openly mocked those who take it seriously. Republicans controlled Congress for the first half of Trump's administration and have largely conformed to Trump's agenda, but the new Democratic majority in the House of Representatives plans to press for stronger climate action. On the GOP side, a growing conservative coalition is promoting a carbon tax, opening the possibility that a bipartisan deal is possible. Recent "Green New Deal" proposals from Democratics seems likely to feature high in the 2020 presidential election, even though meaningful climate change legislation still seems uncertain and may arrive too late to force the emissions reductions we must achieve to avoid severe impacts on the economy and society at large. This reality underscores investors' urgency in pressing companies to act, and it explains why large, usually cautious mutual funds continue to press for disclosure and action to mitigate climate risks from companies they own.

Shareholder proposals remain evenly divided between those focused on carbon asset risk and those seeking information about greenhouse gas (GHG) emissions management, as in 2018. Proponents remain keenly interested in how companies are assessing carbon asset risks and still want to see more oversight, management and disclosure of strategy—with 20

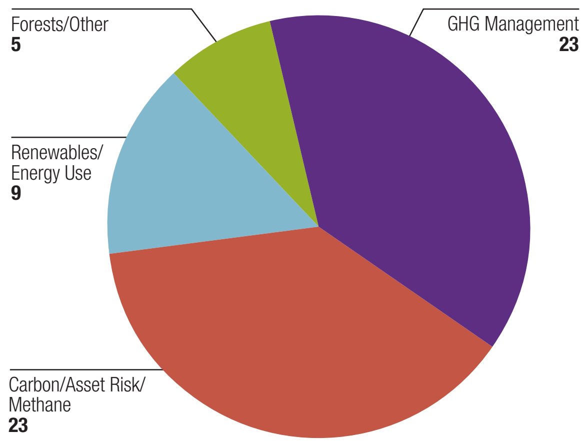
Outcome of Climate Change Proposals



resolutions about this (down from 27 at this point last year). Investors have seen significant progress in persuading companies to report—with tailwinds coming from majority votes during the last two proxy seasons at leading energy firms. But proponents also have filed 23 proposals about GHG management, seeking goals or reports on such goals. Nine resolutions ask about renewable energy use and goals, down from 15 last year. After 11 proposals last year on unconventional fossil fuel energy production and its associated methane releases, there are just three this year. Four also address deforestation, with a final new proposal about access to sustainable energy. *(Pie chart.)*

The Ceres coalition coordinates nearly all these proposals, working with its Investor Network on Climate Risk (INCR) and a broad coalition of institutional investors, including many members of the Interfaith Center on Corporate Responsibility (ICCR) and some individuals. Investors around the globe are

Climate Change Proposals in 2019



expertinsight

SOCIAL COST AND MATERIAL LOSS: THE DAKOTA ACCESS PIPELINE

CARLA FREDRICKS
Director, First Peoples Investment Engagement Program, University of Colorado

For 25 years shareholders have been raising concerns over corporate infringement on Indigenous Peoples' Rights. Indigenous Peoples have helped to raise international awareness about how pipelines such as the Dakota Access, Keystone, and Trans Mountain projects harm local communities. Companies often minimize the social cost of public protests, even as investors contend that grassroots opposition can impose significant financial and brand risks.

The First Peoples Investment Engagement Program (FPIEP) recently published an innovative case study to qualitatively identify and to quantitatively assess the social risks that became material losses during the Dakota Access Pipeline (DAPL) controversy.

The DAPL controversy showcases for a generation the consequences of failing to account for the social risks of development on and near indigenous lands, including a failure to respect human rights. The failure stemmed, in part, from a lack of due diligence analysis at the outset of the project. While companies completed the bare minimum standards of due diligence within the domestic legal and regulatory regime, the scope of the process was too narrow to assess the nature of the opposition, including the social, environmental and cultural impacts of development on and near the Standing Rock Sioux Tribe's territories. Thus, disclosures did not give an accurate picture of the total risks of the investment. The case study used several methodologies to assess how social impacts affected financial performance, as summarized below.

The stock price for **Energy Transfer Partners** (ETP), DAPL's parent company, significantly underperformed market expectations during the event study period, and it experienced a long-term decline in value that persisted after the project was completed. From August 2016 to September 2018, ETP's stock declined in value by almost 20 percent, while the S&P 500 increased by nearly 35 percent. The case study does not assert that this underperformance came exclusively from social pressure, but both the magnitude of media attention generated by the controversy and the magnitude of financial losses suggest social pressure is a likely contributor.

Similarly, the case study estimates that the costs incurred by ETP and other firms with ownership stakes in DAPL for the entire project are not less than $7.5 billion. The banks that financed DAPL incurred an additional $4.4 billion in costs. Further, at least $38 million was incurred by taxpayers and other local stakeholders.

The data points to several conclusions:

1) All entities must conduct thorough due diligence on social risks related to human rights prior to any business transaction, especially those with impacts to indigenous peoples.
2) Companies must create disclosures inclusive of social risks so that investors have a clear understanding of the total risks of a development project.
3) Social costs accumulate not only to investors but also to local communities, to states, to taxpayers and to tribal governments.
4) The social movement around DAPL did not occur in a vacuum. Rather, the #NoDAPL movement galvanized worldwide support from indigenous peoples and allies because of the resonance of consistent issues—lack of consultation, minimal adherence to government policies as to consent from indigenous peoples, and lack of due diligence by companies regarding the social and cultural impacts of development on and near indigenous territories.

focusing their efforts on key carbon emitters that account for two-thirds of global industrial emissions, through the new initiative Climate Action 100+, with backing from 310 institutions that have $32 trillion in assets under management. Undergirding many of the resolutions, and the strategic concern of long-term investors, is the sense that regulatory regimes ultimately will favor lower-carbon fuel sources and leave stranded carbon assets that account for a large part of the market value claimed on the balance sheets of energy companies. Proponents also contend that utilities dependent in large part on fossil-fuel powered electricity will be caught short if they do not aggressively manage a transition to lower carbon-intensive power generation. The January bankruptcy of **Pacific Gas & Electric**, on the hook for damages from the California wildfires, is being called one of the first climate-related casualties—underscoring these concerns and showing how much investors can lose when claimants line up in court. The company faces $30 billion in liabilities, exceeding its assets.

(Sections below on Environmental Management, p. 29 and Sustainable Governance, p. 60, cover environmental and social topics that also raise climate change issues.)

Greenhouse Gas Emissions Management

Shareholder resolutions about tracking, managing and reducing GHG emissions—a critical step if companies are to effectively address climate risks and seize related opportunities—remain under threat by a key no-action letter the SEC staff issued Feb. 28, 2018, at **EOG Resources**, which came too late to affect last year's proposals. Companies earlier had been successful in knocking out relatively new requests to set net-zero emissions goals, but the EOG decision was much broader, suggesting that proposals about GHG goals in general amounted to "micromanagement," a long-established matter of ordinary business that companies can cite to exclude a resolution from the proxy statement. This year, proponents are trying several new approaches in the hopes they will thread the SEC's needle of acceptability.

Greenhouse Gas Emissions Management

Company	Proposal	Lead Filer	Status
Greenhouse Gas Management			
Amazon.com	Adopt GHG reduction targets	Green Century	May
Anadarko Petroleum	Report on Paris-compliant plan to cut carbon footprint	As You Sow	May
C.H. Robinson Worldwide	Adopt GHG reduction targets	Srs. of the Presentation of the Blessed Virgin Mary	May
Chevron	Report on GHG emissions targets	Arjuna Capital	May
Chevron	Report on Paris-compliant plan to cut carbon footprint	As You Sow	May
Cooper Companies	Report on Paris-compliant plan to cut carbon footprint	As You Sow	withdrawn
Devon Energy	Report on GHG emissions targets	Gund Foundation	June
Emerson Electric	Adopt GHG reduction targets	Walden Asset Mgt.	withdrawn
ExxonMobil	Report on GHG emissions targets	New York State Common Retirement Fund	May
ExxonMobil	Report on Paris-compliant plan to cut carbon footprint	As You Sow	May
Flowserve	Adopt GHG reduction targets	NYC pension funds	May
Fluor	Adopt GHG reduction targets	New York State Common Retirement Fund	May
Goldman Sachs	Limit high carbon financing	As You Sow	May
Hess	Report on Paris-compliant plan to cut carbon footprint	As You Sow	June
Home Depot	Adopt GHG reduction targets	Boston Common Asset Management	withdrawn
Illinois Tool Works	Adopt GHG reduction targets	Trillium Asset Management	May
J.B. Hunt Transport Services	Adopt GHG reduction targets	Trillium Asset Management	April
JPMorgan Chase	Limit high carbon financing	As You Sow	May
Ross Stores	Report on GHG emissions targets	Jantz Management	May
TransDigm Group	Adopt GHG reduction targets	NYC pension funds	3/12/19
Vertex Pharmaceuticals	Adopt GHG reduction targets	Green Century	May
Vistra Energy	Adopt GHG reduction targets	New York State Common Retirement Fund	withdrawn
Wells Fargo	Limit high carbon financing	As You Sow	April
Methane			
Atmos Energy	Report on methane emissions/reduction targets	As You Sow	34.8%
EOG Resources	Adopt methane reduction targets	Trillium Asset Management	withdrawn
UGI	Report on methane emissions/reduction targets	As You Sow	withdrawn
Other Climate Change			
ExxonMobil	Report on support for sustainable energy access	Srs. of St. Dominic of Caldwell, N.J.	May

advocacyposition

NYC PENSION FUNDS SUES TRANSDIGM TO INCLUDE GREENHOUSE GAS PROPOSAL ON PROXY

MICHAEL GARLAND
Assistant Comptroller, Corporate Governance and Responsible Investment Office of New York City Comptroller

New York City Comptroller Scott Stringer, on behalf of the New York City pension funds (the "NYC Funds"), submitted a shareowner proposal to **TransDigm Group** on September 19, 2019, requesting that the company adopt a policy with time-bound, quantitative, company-wide goals for managing greenhouse gas (GHG) emissions, taking into account the objectives of the Paris Climate Agreement, and report on its plans to achieve these targets.

Transdigm's peers in the aerospace and defense industry that have set GHG management goals include **United Technologies**, **Boeing**, **Lockheed Martin** and **Northrop Grumman**. The NYC Funds which have approximately $200 billion in assets under management, are substantial long-term TransDigm shareowners, with approximately 60,000 shares of TransDigm common stock valued at approximately $22.1 million

On November 9, 2018, TransDigm wrote to the Securities and Exchange Commission division of Corporation Finance ("Division") requesting the issuance of a no-action letter that would approve omission of the shareowner proposal from its proxy materials. TransDigm made its no-action request on the grounds that, pursuant to Rule 14a-8(i)(7), the subject of the proposal impermissibly related to TransDigm's "ordinary business matters" and impermissibly sought to micromanage TransDigm. The company further argued that the proposal does not transcend ordinary business matters.

TransDigm was likely emboldened by the Division's response to **EOG Resources** earlier in 2018, in which the Division, inconsistent with its prior determinations, issued a no-action letter effectively permitting EOG Resources to exclude a shareowner proposal similar to the NYC Funds' proposal. However, twice in 2015 the Division found that nearly identical proposals could not be excluded.

On December 5, 2018, the NYC Funds filed a lawsuit in U.S. District Court, Southern District of New York, alleging that TransDigm was attempting to illegitimately block a shareowner proposal that would require TransDigm, for the first time, to examine and set goals for managing its greenhouse gas (GHG) emissions. At the time, the Division had not yet responded to TransDigm's request—and the NYC Funds requested that no response be issued in light of the lawsuit.

On January 23, 2019, New York City Comptroller Scott M. Stringer and the New York City Law Department announced the settlement of the lawsuit. As part of the settlement, TransDigm agreed to end its no-action request and allow the Funds' shareowner proposal on GHG emissions to go up for a vote at the company's 2019 annual meeting on March 12th in Cleveland, Ohio.

According to Comptroller Stringer, "The need for climate leadership is more urgent than ever. Yet, just when we need to speed up the pace, federal roll-backs are making polluting easier and could cause generations of damage. That's why as investors, we're using our voice to pressure companies to step up and address their role in climate change."

It may be that the courts will decide, however. In December, the New York City Comptroller's office sued **TransDigm** in federal court, in the Southern District of New York, seeking a preliminary injunction to force the company to include a proposal asking it to adopt GHG reduction targets. Ultimately, the company agreed to include the proposal before a court decision so no legal precedent has been set, but the comptroller has set down a clear marker that the city pension funds will sue again if a company excludes a similar proposal—possibly preemptively, before any SEC no-action letter. Whether a company will take up this gauntlet remains to be seen, but several challenges to the proposals using arguments similar to those employed by TransDigm are pending at the SEC, as noted below.

Time-bound quantitative targets: Eleven of the resolutions reiterate previous GHG goals proposals, with slightly different language, all invoking the 2015 Paris Climate Treaty.

Managing—Resolutions at **Amazon.com**, **Home Depot**, **TransDigm** and **Vertex Pharmaceuticals** ask each to "adopt a policy with quantitative, company-wide goals for managing greenhouse gas (GHG) emissions, considering the objectives and timelines of the Paris Climate Agreement, and report…on its plans to achieve these targets." Amazon.com investors last voted on a climate-related proposal in 2012, giving 21.1 percent support to a report request about climate change impacts.

Reducing—Similar proposals include requests for a report at **C.H. Robinson** (where a similar resolution earned 37.8 percent last year), **Emerson Electric** (39 percent) and **Flowserve** (22.1 percent) and asks for "the adoption of time-bound, quantitative, company-wide, science-based targets for reducing total greenhouse gas (GHG) emissions, taking into account the goals of the Paris Climate Agreement" and report on "plans to achieve these goals." This is very close to the proposal from New York State Common Retirement Fund (NYSCRF) pending at **Fluor** (in its fourth year, with 41.6 percent last year) and **Vistra Energy** (new) which specifies the report should be by December 2019.

Trillium Asset Management is slightly more prescriptive, asking **Illinois Tool Works** (24.6 percent last year) and **J.B. Hunt Transport Services** (21.4 percent last year) to adopt "quantitative, company-wide targets for reducing greenhouse gas (GHG) emissions, consistent with the goals of the Paris Climate Agreement," with annual reports on "plans and progress towards achieving these targets."

Reporting on targets: A reformulated proposal at **Chevron**, **Devon Energy** and **ExxonMobil** seeks

> annual reporting from 2020, include disclosure of short-, medium- and long-term greenhouse gas targets aligned with the greenhouse gas reduction goals established by the Paris Climate Agreement to keep the increase in global average temperature to well below 2 Degrees C and to pursue efforts to limit the increase to 1.5 Degrees C.

Devon investors have not seen a GHG goals proposal before but gave a request for a climate change scenario report 41 percent support in 2017; in 2018, proponents withdrew there after Devon agreed to produce the report. Earlier proposals at ExxonMobil asking it to adopt GHG goals earned in the 20-percent range each year from 2010 to 2014, then missed the resubmission threshold in 2015 with a vote of only 9.6 percent. Proponents shifted tactics and asked for a climate change scenario analysis and received unprecedented 62 percent support in 2017, prompting further disclosures from the company but still no pledge to set reduction targets.

At **Ross Stores**, the request is for "a climate change report…by November…that describes how the Company is aligning its long-term business strategy with the projected long-term constraints posed by climate change, and describing medium- and long-term goals for GHG reduction."

Paris-compliant transition—In new variants on GHG emissions reporting, As You Sow is asking five energy companies about any plans to lighten their carbon footprints. At **Anadarko Petroleum**, the request is for a report "describing if, and how, it plans to reduce its total contribution to climate change and align its operations and investments with the Paris Agreement's goal of maintaining global temperatures well below 2 degrees Celsius." It suggests the requested report should explain the pros and cons of low-carbon energy investments, reduced investment in high-carbon resource development and operational diversification to cut carbon emissions. In similar language, at **Chevron**, **ExxonMobil** (both of which also have quantitative goals resolutions, as discussed above), as well as at **Hess**, the proposal seeks a report "on how the company can reduce its carbon footprint in alignment with greenhouse gas reductions necessary to achieve the Paris Agreement's goal of maintaining global warming well below 2 degrees Celsius." The proposal at **Cooper Cos**. says the report should evaluate "the feasibility of the Company achieving greenhouse gas emissions reductions in line with Paris climate change goals for those parts of the business directly owned and operated by the Company."

advocacyposition

ENERGY & BANKING COMPANIES NEED PLAN TO REDUCE FULL CLIMATE FOOTPRINT IN LINE WITH PARIS GOALS

DANIELLE FUGERE
President, As You Sow

Climate change poses growing risk to the individual companies in which shareholders invest and, significantly, to shareholders' broader portfolios. As climate-related harm accelerates, economy-wide losses are increasing and hurting portfolios. A 2018 analysis in *Nature* suggests that keeping global temperature rise below 1.5 degrees instead of 2 degrees can prevent over $30 trillion in economic damage.

Oil and gas companies and banks are two industries that cause outsized impacts to our climate. Every dollar invested in new fossil fuel resource development and infrastructure, especially high carbon projects, slows the necessary low carbon transition and increases risk to the global economy and investor portfolios. The decisions made by companies in these sectors can play a major role in the timely transition to a clean energy economy—or in preventing it.

The "Paris Compliant Transition Plan" resolutions pending at **Anadarko Petroleum**, **Chevron**, **ExxonMobil**, **Goldman Sachs**, **Hess**, **JPMorgan Chase** and **Wells Fargo** this year begin where company-specific climate risk proposals leave off. Instead of focusing on climate risk to companies, these proposals ask companies to report if, and how, they plan to reduce their total carbon footprints in line with Paris goals. The proposal addresses not only operational emissions, but also indirect emissions associated with products and investments.

The Paris Agreement forms the backbone for action on climate change. The necessary transition cannot occur if governments, companies, and financial institutions fail to quickly align their actions with these goals. The proposals ask companies to disclose their Paris-aligned plans now because planning and implementation takes time. Companies that fail to plan for the transition not only will keep contributing to climate change, they will lag competitors and lose opportunities.

Some oil and gas companies and global banks have already announced paths to meaningfully reduce their operational *and* product or investment emissions, in alignment with Paris goals. For example, in the oil and gas arena, **Royal Dutch Shell** recently announced greenhouse gas intensity reduction goals for its products. **BP** announced plans to align emissions with Paris goals. **Total** has invested in solar energy and is reducing the carbon intensity of its energy products. **Equinor** (formerly Statoil) is investing in wind energy development. Similarly, a number of banks have adopted policies to begin measuring and reducing carbon emissions associated with their loan and investment portfolios; this includes reducing or avoiding investments in extreme fossil fuels such as coal, tar sands, and Arctic development. From **BNP Paribas** to the World Bank, at least eleven banks have adopted policies to end or substantially reduce such financing.

This proposal seeks to align company actions with global needs by increasing the scale, pace and rigor of company response to climate imperatives. Shareholders increasingly can differentiate between companies' climate-related actions. When shareholders connect their investment choices to climate action they encourage reductions in globally destructive greenhouse gas emissions and reduce their own portfolio risk.

Previous resolutions about climate scenario analysis earned majorities at Anadarko Petroleum (53 percent in 2018) and ExxonMobil (62 percent in 2017), and 30 percent at Hess in 2017. At Chevron, a proposal in 2017 asking for a report on company options for a reduced carbon asset mix received 25.6 percent. At Cooper, a proposal seeking net-zero GHG goals earned 32.8 percent in 2018. This year's resolution is broader and Amalgamated Bank, last year's proponent, is a co-filer.

High carbon financing: As You Sow is asking three major banks—**Goldman Sachs**, **JPMorgan Chase** and **Wells Fargo**—to each "adopt a policy to reduce the carbon footprint of its loan and investment portfolios in alignment with the 2015 Paris goal of maintaining global warming well below 2 degrees, and issue annual reports…describing targets, plans, and progress under this policy." The proposal recommends the report include information on cutting the firms' exposure to "extreme fossil fuel projects such as coal, Arctic oil and gas, and tar sands."

Both Goldman and Wells Fargo have challenged the proposal so far at the SEC, as described below.

SEC action: Three companies contend the GHG goals resolutions are ordinary business, citing the SEC Staff Legal Bulletins of the last two years and the 2018 EOG Resources precedent discussed above:

- **Anadarko Petroleum** contends that the Paris-compliant goals proposal amounts to "micromanagement," setting out the EOG precedent and the October 2017 SEC Staff Legal Bulletin clarifying when a company can omit a proposal on ordinary business grounds of "micromanagement." *(See p. 14-15 for a fuller discussion of the bulletin.)* It says the proposal is both "extremely broad and extremely particular" and fails to consider its 2018 climate risk report, which set out its approach to climate resilience and explained what it has done to reduce emissions. Further, it offers a point-by-point comparison of the current resolution with the excluded EOG Resources proposal—while also contending it is similar to SEC- excluded 2018 requests for reporting on how net-zero GHG emissions might be achieved, at Amazon.com, Deere and Apple.

  Implementing the resolution would require a reduction in its oil and gas development and an increase in renewable energy development, Anadarko asserts. The proposal would force it to change its entire business strategy to become "a completely different business," which is impermissible.

- **J.B. Hunt** also says the resolution is ordinary business. It contends "transportation equipment, cost and analysis of fuel, and system logistics directly impact GHG emissions" that it already considers because they are intrinsic to its transportation business. Like Anadarko, it cites the 2018 SEC Staff Legal Bulletin's criteria for ordinary business, saying investors are not very worried about its emissions because votes on earlier proposals were 21.4 percent in 2017 and 16.8 percent in 2015—and that it has not received a resolution since. (In fact, the 21.4 percent vote occurred in 2018.)

  The company further says it has addressed climate-related concerns by offering intermodal transportation containers that can be carried by rail, not trucks (thus reducing emissions); by emphasizing energy efficient options for its customers; and by a long list of other initiatives to cut emissions. It notes its participation in multi-stakeholder efforts such as the Sustainability Accounting Standards Board, work with the Environmental Protection Agency and CDP reporting. Finally, the company cites the EOG Resources precedent and contends setting goals would subject it to "arbitrary emissions targets" that would interfere with complicated management decisions that depend on a multitude of factors aside from emissions reductions priorities.

- **Ross Stores**, which has never received a climate change proposal before, adds another objection about "micromanagement" based on the EOG precedent. It argues that while proposals about GHG goals may transcend ordinary business for energy companies, they do not in its case as a retailer because of its more limited emissions.

Echoing the other objections, **Goldman Sachs** also argues the carbon financing proposal concerns ordinary business by dint of "micromanagement," but also says As You Sow did not offer sufficient proof of stock ownership. Wells Fargo makes the same micromanagement contention. A similar financing proposal was omitted on ordinary business grounds in 2018 at **JPMorgan Chase**, but no similar challenge has surfaced to the version offered this year so far.

Two more companies argue the GHG goals resolutions are duplicative of other resolutions already filed for their annual meetings this year. (The shareholder proposal rule allows companies to omit the second of two similar proposals.) **Amazon.com** has told the SEC the request about emissions management is similar to one it received first that seeks a report on its plans for handling climate-related business disruptions and reducing dependence on fossil fuels. Likewise, **Chevron** says the GHG targets proposal from Arjuna Capital duplicates the one from As You Sow about a Paris-compliant footprint, which it received first.

Withdrawals: Proponents have withdrawn four of the goals proposals so far after reaching agreements with the companies:

- At **Cooper**, As You Sow and Amalgamated Bank will continue discussions with the company's new Director of Corporate Sustainability to evaluate possible GHG goals, as noted in the withdrawal letter.
- Walden Asset Management withdrew after **Emerson Electric** agreed to set GHG targets; this year's proposal was a resubmission and had earned 39.0 percent in 2018, 33.9 percent in 2017, and 36.8 percent in 2016.
- Boston Common Asset Management also withdrew after **Home Depot** agreed to release its 2030 and 2035 GHG emissions reduction targets early in 2019.
- NYSCRF withdrew at **Vistra Energy** after a company commitment; Vistra owns TXU Energy, the largest retail electricity provider in Texas. This was its first climate-related shareholder proposal, but in 2018 it acquired Dynegy, where a GHG goals request in 2011 earned 8.5 percent support.

Methane: Investors concerned about the impact methane emissions have on climate change, an issue elevated by the boom in U.S. oil and gas production made possible by hydraulic fracturing, have achieved some success in persuading companies to work on eliminating leaks and addressing methane, although critics remain. Fewer shareholder resolutions now are raising concerns on this issue, and just three proposals filed this year address methane, two of which have been withdrawn. On February 6, Investors gave 34.8 percent support to a request asking **Atmos Energy** for a report on its "actions beyond regulatory requirements to reduce its greenhouse gas emissions and associated climate risk by monitoring and minimizing its methane emissions." The proponent, As You Sow, withdrew the same proposal at **UGI** after the company agreed to provide information about its methane emissions.

At **EOG Resources**, Trillium Asset Management reached an accord and withdrew a proposal that asked it to "adopt quantitative targets for reducing methane emissions, and issue a report…discussing its plans and progress towards achieving these targets." The company agreed to set qualitative and quantitative targets and Trillium says, "This agreement represents steady progress with EOG achieved over five years of dialogue and shareholder proposals."

Carbon Asset Risk

Shareholder proponents withdrew many of the resolutions they filed in 2018 about 2-degree scenario reports because companies agreed to the request. But proponents are persisting with more such requests this year, bolstered by the guidelines on voluntary climate reporting from the Task Force on Climate-Related Financial Disclosures (TCFD), which is backed by financial firms that together manage more than $81.7 trillion in assets. Reports in the last year have documented more reporting but find it remains inadequate to the scale of climate challenges.

Carbon Asset Risk

Company	Proposal	Lead Filer	Status
Amazon.com	Report on climate-related transition plan	Amazon Workers	May
American International Group	Report on 2-degree analysis and strategy	Presbyterian Church (USA)	withdrawn
Antero Resources	Report on 2-degree analysis and strategy	Mercy Investment Services	June
Chubb Limited	Report on 2-degree analysis and strategy	Friends Fiduciary	withdrawn
Concho Resources	Report on 2-degree analysis and strategy	New York State Common Retirement Fund	withdrawn
Continental Resources	Report on 2-degree analysis and strategy	New York State Common Retirement Fund	May
Diamondback Energy	Report on 2-degree analysis and strategy	New York State Common Retirement Fund	June
Dominion Energy	Report on LNG stranded asset scenarios	Stewart W. Taggart	omitted
DowDupont	Report on climate-related extreme weather impacts	As You Sow	April
Duke Energy	Report on coal risks	As You Sow	May
ExxonMobil	Report on climate-related extreme weather impacts	As You Sow	May
General Electric	Report on emerging market fossil fuel investments	As You Sow	withdrawn
Marathon Oil	Report on 2-degree analysis and strategy	Unitarian Universalists	May
Martin Marietta	Report on climate-related transition plan	New York State Common Retirement Fund	May
MGE Energy	Report on climate-related transition plan	School Srs. of St. Francis, Milwaukee	withdrawn
MGE Energy	Report on energy sources/acquisitions	MGE Shareowners for Clean Energy	withdrawn
PNM Resources	Report on coal ash risks	Edith P. Homans Family Trust	May
Range Resources	Report on 2-degree analysis and strategy	New York State Common Retirement Fund	May
Sempra Energy	Report on LNG stranded asset scenarios	Stewart W. Taggart	withdrawn
Southern Copper	Report on climate-related transition plan	CalPERS	withdrawn

advocacyposition

GROWING SUPPORT FOR CLIMATE FINANCIAL DISCLOSURE AND SCENARIO ANALYSIS

JIM COBURN
Senior Manager, Disclosure, Ceres

The Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) has raised awareness of climate risks and opportunities to new levels. As a global, industry-led initiative formed by G20 nations, it has support from over 500 corporations and has led many other companies to consider its recommendations.

The TCFD's 2017 final report provided 11 recommendations for all industries, covering climate governance, strategy, risk management, metrics and targets—as well as the crucial issue of scenario planning, asking companies to consider "a transition to a lower-carbon economy consistent with a 2°C or lower scenario."

We've seen steady growth in the number of companies using the recommendations. The TCFD's 2018 status report shows they have spurred action, but much work remains. For example, the report found that many companies disclose information about climate risks and opportunities, but few disclose any financial impacts.

Companies have included TCFD indexes in sustainability reports and some have produced standalone reports generally aligned with the TCFD's recommendations. Investors have discussed the TCFD in dozens of resolutions, and this year they filed the first resolutions focused on the TCFD, at **Southern Copper** and **Martin Marietta**, strongly encouraging them to consider its recommendations in disclosures.

Yet on the issue of scenario planning, investors realize they must ask companies for more than the TCFD recommends. Over 300 institutions with $32 trillion in assets support the Climate Action 100+ initiative, which seeks commitments from 160 of the highest emitting companies globally to reduce greenhouse gas emissions across their value chains consistent with a "*well below* 2 degrees Celsius" goal, a target informed by the recent IPCC call to limit warming to 1.5 degrees and a U.S. government report that emphasizes the need for accelerated action.

Global power company **AES** recently released a Climate Scenarios Report in a meaningful response to investors using TCFD recommendations. It illustrates the company's carbon transition away from coal towards clean energy and provides a transparent analysis of three future energy scenarios. The analysis is more useful than most because it discusses core assumptions, specific improvements needed in the scenarios used, and potential strengths and weaknesses in its portfolio and strategy.

A recent **Moody's** report analyzed disclosure from four electric power companies, finding that each one loosely followed the TCFD recommendations, but none provided all of the recommended disclosures. It also found that two of the companies included disclosures on climate scenario analysis, "which we think is an important consideration when assessing and planning for carbon risk transition."

Going forward, investors can continue working collectively to influence companies, such as through Climate Action 100+, and push companies to develop stronger responses to climate change consistent with the Paris Agreement. The TCFD recommendations are a valuable resource for investors due to their breadth, specificity and backing from many influential organizations in the investment value chain.

As a result, the usual array of energy and utility companies, alongside a few other firms, are recipients of carbon asset risk proposals in 2019. Resolutions ask about the impact on companies of policies that would keep warming "no more than" or "well below" 2 degrees Celsius, and how they will handle the coming challenges that now are being realized. In addition to several more general proposals, the group of resolutions includes a handful of new ideas and specific resolutions. Proponents have filed 20 resolutions and 11 are still pending; eight have been withdrawn and one has been omitted so far; at least one more SEC challenge is pending.

2-degree scenario analysis: Eight resolutions seek analysis about the potential impacts on the company from a low-carbon economy.

NYSCRF has asked **Concho Resources**, **Continental Resources**, **Diamondback Energy** and **Range Resources** for "an assessment of the long-term impacts on the company of public policies and technological advances that are consistent with limiting global temperature rise to no more than 2 degrees Celsius over preindustrial levels." None of the companies has received this proposal before, although a methane proposal at closely held Continental Resources earned 5.5 percent in 2016 and another on methane at Range Resources received 50.2 percent in 2018.

Another variant at **Antero Resources** and **Marathon Oil** asks each to "publish an assessment of the long-term impacts on the company of public policies and technological advances that are consistent with limiting global temperature rise to no more than 2 degrees Celsius over preindustrial levels." Antero previously had a methane proposal, which was withdrawn after an agreement, in 2016, while Marathon Oil reached an agreement that led the Unitarian Universalists to withdraw a climate risk proposal in 2016, after a methane proposal received 36.3 percent in 2015.

Withdrawals—NYSCRF has withdrawn the proposal noted above after an agreement at Concho.

ICCR members also have withdrawn a proposal at two insurance companies—**American International Group** and **Chubb**—that said

> Given the profound societal impacts of climate change and our company's potentially critical role in mitigating harm to society, shareholders request that [the company] publish an assessment…of the plausible impacts of a climate change scenario consistent with a globally agreed upon target of limiting warming to well below 2 degrees Celsius, as well as additional scenarios reflecting higher global average temperatures.

The Presbyterian Church (USA) had filed a similar proposal last year at AIG and withdrew it then, too.

Climate transition plans: Four companies face similar questions about how they will adapt to the challenges of climate change. Proponents at **Martin Marietta** and **MGE Energy** want annual reports with "quantitative metrics" where possible or relevant "on the physical and transition risks to and opportunities for the Company associated with climate change," which "focus on disclosures beyond existing disclosures and beyond those required by law." NYSCRF says Martin Marietta's disclosures fall short of TCFD recommendations; it withdrew a 2-degree scenario proposal in 2015 at the company after it reported changes in its cement making business that aim to cut emissions. MGE, a utility in the Upper Midwest, has seen eight proposals since 2015 from its shareholders about renewable energy issues, with the highest vote of 11.1 percent coming last year on a 2-degree scenario proposal.

A group of **Amazon.com** workers has a new resolution that lists a range of extreme weather events that have affected the company and requests a report "as soon as practicable describing how Amazon is planning for disruptions posed by climate change, and how Amazon is reducing its company-wide dependence on fossil fuels." In a challenge to a different proposal, the company indicated it plans to include this resolution in its proxy statement. The proposal says the report could include time-bound, quantitative GHG targets. Previously, Amazon successfully challenged a 2018 resolution seeking a report on net-zero GHG goals; the SEC agreed it was too specific and therefore constituted ordinary business.

At **Southern Copper**, a publicly traded U.S. company with Latin American mining interests, which is a subsidiary of Mexico's Grupo Mexico, the California Public Employees' Retirement System (CalPERS) asked for

> an annual assessment that is above and beyond existing disclosures and those required by law, which addresses how the Company is managing the physical and transition risks and opportunities associated with climate change. [The report] may cover topics such as governance, strategy, risk management, and metrics & targets.

Withdrawal—MGE produced more information and the proponents withdrew. Ceres reports that CalPERS also received a commitment from Southern Copper, persuading it to withdraw.

Extreme weather: A new resolution from As You Sow asks about potential petrochemical contamination. At **DowDupont**, the proposal asks for a "report on climate change-induced flooding and public health," which will "assess the public health risks of petrochemical operations and investments in areas increasingly prone to climate change-induced storms, flooding, and sea level rise and the adequacy of measures the company is employing to prevent public health impacts from resultant chemical releases." At **ExxonMobil**, it is nearly identical, seeking an assessment of "the public health risks of *expanding* petrochemical operations and investments in areas increasingly prone to climate change-induced storms, flooding, and sea level rise" (emphasis added). *(See sidebar, p. 30.)*

Stranded assets: Two proposals from individual investor Stewart Taggart will not go to votes. Taggart did not provide sufficient proof of stock ownership at **Dominion Energy** after he asked for a report on "the premature write down, or stranding, risk to the company's Liquid Natural Gas assets across a range of rising carbon price scenarios," including "the life-cycle emissions (production, transport and combustion) of the specific natural gas the company delivers as Liquid Natural Gas using various carbon price scenarios and administratively-mandated reductions to meet the 2c target." He withdrew the same resolution at **Sempra Energy** after procedural problems with the filing that the company pointed out in an SEC challenge.

Coal: The perennial problem facing carbon-intensive utilities has come up again at two companies. Prompted by a 2014 coal ash spill on the Dan River and breaches of coal ash waste ponds following 2018's Hurricane Florence in North Carolina, As You Sow wants **Duke Energy** to "report assessing how it will mitigate the public health risks associated with Duke's coal operations in light of increasing vulnerability to climate change impacts such as flooding and severe storms. The report should provide a financial analysis of the cost to the Company of coal-related public health harms, including potential liability and reputational damage." The resolution also suggests the report should discuss how its coal ash disposal affects poor and minority communities. Proponents withdrew a similar 2018 proposal after the company agreed to more disclosure, after a 2017 coal risk reporting resolution earned 27.1 percent.

The Edith P. Homans Trust wants **PNM Resources** to "identify and reduce environmental and health hazards associated with past, present and future handling of coal combustion residuals and how those efforts may reduce legal, reputational and financial risks to the company," in a report by January 2020. Several climate change proposals have gone to votes previously at the company, with the highest vote of 49.9 percent coming in 2017 for a request to provide a 2-degree climate change scenario analysis. This is the first coal-specific proposal there.

Gas plant acquisition impact: At **MGE Energy**, shareholders are concerned about methane emissions from a planned natural gas plant acquisition. They are asking for "a public report within 6 months of the 2019 annual meeting disclosing its strategy regarding their option to acquire 50MW of the 700MW Riverside natural gas plant (Beloit, WI) as it relates to greenhouse gas emission reduction goals, overall environmental policy, and shareholder value." The company challenged the proposal at the SEC, arguing it concerns ordinary business and the proponents have withdrawn but it is not clear they reached an accord.

Emerging markets investments: A new proposal at **General Electric** asked for a report on the "adequacy of the company's climate change related criteria for ensuring that investments in fossil fuel projects in emerging markets are consistent with the Paris Agreement's goal of limiting global temperature increase to 'well below 2 degrees Celsius.'" It wanted information about risks associated with new GE investments in fossil fuel projects in Pakistan, Cambodia, Bangladesh, Vietnam, Kenya, and Mozambique. But As You Sow withdrew after a company challenge that contended the resolution concerned ordinary business. The withdrawal came before any SEC response and dialogue on the issues is expected to continue. The company already has provided details on its proposed coal plant in Lamu, Kenya already and set dates for future dialogues about its fossil-fuel related projects in developing countries.

Renewable and Efficient Energy

As in the past, most of the proposals that set out possible energy solutions to climate change challenges are about using more renewable energy, often coupled with questions about energy use and energy efficiency. Many of these resolutions have proven to be fertile ground for agreements before and four already have been withdrawn this year. In all, nine proposals have been filed to date; only one has been challenged.

Renewable & Efficient Energy

Company	Proposal	Lead Filer	Status
Archer Daniels Midland	Report on energy efficiency/renewable energy goals	Rhode Island Pension Fund	withdrawn
Dollar General	Report on energy efficiency/renewable energy goals	New York State Common Retirement Fund	withdrawn
Goodyear Tire & Rubber	Report on energy efficiency/renewables programs	Nathan Cummings Foundation	withdrawn
Harley-Davidson	Report on energy efficiency/renewable energy goals	Nathan Cummings Foundation	May
Keurig Dr Pepper	Report on energy efficiency/renewable energy goals	New York State Common Retirement Fund	May
MGE Energy	Report on energy efficiency/renewable energy goals	MGE Shareowners for Clean Energy	May
Under Armour	Report on energy efficiency/renewable energy goals	New York State Common Retirement Fund	May
Verizon Communications	Report on energy efficiency/renewables programs	Green Century	withdrawn
Yum Brands	Report on energy efficiency/renewable energy goals	Srs. of Charity of the BVM	May

The proposals are quite similar. Investors want **Archer Daniels Midland**, **Goodyear Tire & Rubber**, **Harley Davidson** and **Yum Brands** to report

> assessing the feasibility of adopting quantitative, company-wide goals for increasing the company's use of renewable energy and any other measures deemed prudent by company management, to substantially reduce the company's greenhouse gas emissions and climate change risks associated with the use of fossil fuel-based energy.

NYSCRF proposals to **Dollar General**, **Keurig Dr Pepper** and **Under Amour** similarly ask for a study on company-wide goals to increase clean or renewable energy use "to substantially reduce the company's greenhouse gas (GHG) emissions and climate change risks associated with the use of fossil-fuel-based energy," with a report within one year.

MGE Energy shareholders have a more precise request, seeking a report by October 2020 "describing how they can provide a secure, low cost energy future for their customers and shareholders by eliminating coal and moving to 100% renewable energy by 2050 or sooner." The proponents are concerned about two coal plants owned by the company and the financial risks they may pose to the company given cheaper renewable energy sources and customer preferences.

Finally, Green Century asked **Verizon Communications** to "report assessing the feasibility of increasing the scale, rigor, and pace of Verizon's utilization of renewable energy and other measures deemed prudent by company management to substantially reduce the Company's greenhouse gas emissions and climate change risks associated with the use of fossil fuel-based energy."

Withdrawals—Company commitments for action or continued dialogue have produced withdrawals so far at Archer Daniels Midland, Dollar General, Goodyear and Verizon Communications.

SEC action: MGE Energy has lodged a challenge, contending the proposal is ordinary business.

expertinsight

ELECTRIC VEHICLES DRIVE SHIFT TO LOW CARBON ECONOMY

MARY JANE MCQUILLEN
Head of Environmental, Social and Governance Investment, ClearBridge Investments

ROBERT BUESING, JR.
Research Analyst for Consumer Staples, ClearBridge Investments

PAWEL WROBLEWSKI, CFA
Director, Portfolio Manager, ClearBridge Investments



As companies consider how to reduce their emissions to comply with the goals of the Paris Climate Treaty, they can look to electric vehicles as a feasible option. Carbon emissions from vehicles contribute significantly to global warming, and the transportation sector is one of the larger contributors to greenhouse gas emissions (GHG) in the U.S. As institutional investors seek to offset and mitigate the rising levels of carbon and other GHGs, electric vehicles (EVs) are an increasingly viable solution. With sales of EVs growing faster than predicted a few short years ago, the outlook for EV production and adoption is becoming increasingly robust

Greater consumer and commercial adoption of EVs will bring environmental benefits as well as financial opportunity for both manufacturers and users and throughout the EV supply chain.

Much of the focus until now has been on consumer adoption of EVs and on the increasing cost parity of EVs and internal combustion engine vehicles. But as total cost of ownership for an EV falls, EVs are also becoming more feasible for commercial use, and shareholders of both fleet buyers and manufacturers are poised to benefit from greater commercial adoption. One of our portfolio holdings, **United Parcel Service**, for example, is currently buying a fleet of 1,000 electric vans, part of an electrification effort that includes converting up to 1,500 delivery trucks to battery electric and initiating purchase of 125 **Tesla** Semi trucks and **Daimler** electric trucks.

Commercial adoption should also help the bottom lines of large consumer staples companies heavily dependent on transportation. Freight is one of the greatest areas of cost inflation among consumer staples companies such as our portfolio holding, **Pepsico**, which is ramping up its electrification efforts with 100 Tesla Semis on order. Other major consumer staples companies with electric trucks on order include **Walmart** and **Sysco**.

As manufacturers continue to consolidate production in larger, more efficient plants, and retailers carry less inventory and demand delivery within ever more narrow time windows, transportation logistics become an increasingly important competitive advantage. Commercial EVs remain an underappreciated source of net-environmental benefit and investment opportunity. ClearBridge encourages a diversified fleet and views several portfolio companies taking advantage of the increased feasibility of EVs in their operations as significant progress in moving toward sustainable transport.

EV adoption will also involve environmental and social challenges, and we are partnering with our portfolio companies both to establish responsible and efficient sourcing practices and to reduce reliance on rare earth minerals through innovation. Another portfolio holding, **Umicore**, for example, is a global materials technology and recycling company based in Belgium. During the year, ClearBridge hosted several engagements with Umicore management. Umicore has a large internal recycling operation that provides some of the materials like cobalt needed for its battery cathode production, reducing the impact of materials sourcing. Battery recycling technology has the potential to be a large business for the company, and Umicore is a good example of how we are working with portfolio companies to help make sustainable and fair production and consumption of EVs possible.

Deforestation

Four proposals address deforestation and its connection to climate change. All are at food companies and seek information on commodities supply chains.

Green Century asked **Aramark** to report on "quantitative metrics on supply chain impacts on deforestation, including progress on any time-bound goals for reducing such impacts," seeking metrics on sustainable sourcing of palm oil, soy, beef and pulp/paper—and an assessment of related risks. It withdrew after the company agreed to develop a new deforestation policy; to transition to 100 percent sustainably sourced palm and soy oils by June 2019; to require supplier reporting on sustainable

SHAREHOLDERS PLAY KEY ROLE IN REDUCING DEFORESTATION AND CLIMATE RISK

LESLIE SAMUELRICH
President, Green Century Capital Management

As investors analyze the climate resiliency of their portfolios, they should consider risks associated with the agricultural sector and especially the conversion of forests and peatlands to crop and pasture land. The burning and razing of forests is one of the largest contributors to global greenhouse gas emissions. Deforestation contributes as much greenhouse gas emissions as the global transportation sector, with commodity-driven deforestation itself responsible for two-thirds of tropical forest loss.

As part of a strategy to minimize climate-related risks, investors have been pressing companies to adopt time-bound no-deforestation policies.

Corporations that fail to adopt no-deforestation policies face unreliable supply chains, reputational damage and diminished financial returns. For example, deforestation already has exacerbated droughts in the Cerrado, a key region for soy production in Brazil, which has negatively affected regional yields, according to *Chain Reaction Research*.

Shareholder resolutions regarding no-deforestation policies have pointed out risks in the four biggest commodities and their supply chains: palm oil, soy, cattle, and timber/pulp, helping to encourage companies to address the problem.

How successful? Since Green Century began working on forest protection in 2012, the percent of Southeast Asian palm oil refineries covered by these commitments has ballooned from 5 percent to 74 percent. And while tropical deforestation remains a global issue and risk, Indonesia actually experienced a 60 percent drop in primary forest loss in 2017. This is enormous progress. From 2007 to 2014, trees in Indonesia were razed at a rate of three acres every minute.

Protecting tropical forests has been a central focus of Green Century for several years. We focus on protecting tropical forests to combat climate change, to preserve necessary habitat for endangered species and to mitigate potential financial risks for investors.

Most recently, Green Century worked with **Aramark**, one of the largest food service providers in the world, to develop and implement a comprehensive deforestation policy that addresses "No Deforestation, No Peat, No Exploitation" (NDPE) sourcing practices. Critically, Aramark also committed to explicitly excluding *legal* deforestation from its supply chain.

Green Century has made progress in other supply chains, as well, by securing cross-commodity zero deforestation commitments from companies that include **Archer Daniels Midland**, **Target** and **Kellogg**. We also collaborate with other U.S. and global investors directly, through Ceres and the Principles for Responsible Investment (PRI) Steering Committee.

Now, thanks in large part to investor pressure, more than 460 companies have made commitments to address deforestation in their supply chains. Investors are working to mitigate their exposure to deforestation risk posed by companies they own. Last year, CalPERS, the largest U.S. state pension fund, amended its investment policy to include deforestation as a material risk to be considered in its investment decisions.

Works remains, however, and investors have an important role to play. We encourage them to incorporate the issue into proxy voting guidelines or join other investors in engagements with companies.

sourcing for palm, soy, beef and timber; to report on time-bound goals and participate in the CDP Forestry survey; and to formalize its supplier engagement strategy with input from stakeholders. The company is to report by May 2019 and quarterly thereafter.

The proposal is still pending at **Kroger**. It suggests the report could include commodity-specific goals for eliminating deforestation, the certification standards Kroger is using for major commodities, strengthened non-compliance protocols and reporting to the CDP Forests initiative. A similar proposal in 2017 earned 22.9 percent support. Earlier, proponents withdrew a 2013 resolution after Kroger agreed to source all its palm oil from sources certified by the Roundtable on Sustainable Palm Oil.

Also still pending are proposals to two more firms. SumOfUs wants **Mondelēz International** to report by May 2020 and annually thereafter "on how the company is curtailing the impact on the Earth's climate caused by deforestation in Mondelēz' cocoa supply chain." The resolution notes that subsidiary Cadbury is the world's second biggest confectionery company and says "Cocoa is a driver of climate change caused by deforestation in Africa, Asia and South America"—a matter that has prompted substantial public notice that can damage the company's reputation given connections to human rights abuses and biodiversity concerns. The proposal contends Mondelēz's Cocoa Life program for sustainable cocoa lacks transparency, with no specific goals or key performance indicators, in contrast to peer firms. The resolution suggests reporting on how much cocoa is traceable, verified by third parties, certified by global entities and shade-grown.

Seventh Generation Interfaith Coalition for Responsible Investment, an ICCR member, has a more general proposal at **Yum Brands**. It asks for annual reports "on how the company is curtailing the impact on the Earth's climate caused by deforestation in YUM's supply chain," with "quantitative metrics on supply chain impacts on deforestation and progress on goals for reducing such impacts." The proposal suggests the company could report on the track of and goals for sustainably sourcing palm oil, soy, beef and pulp/paper.

Sustainable energy access: In one more proposal about the impacts of climate change on the developing world, the Sisters of St. Dominic of Caldwell, N.J., are asking **ExxonMobil** to report "on how ExxonMobil's business activities contribute to the provision of affordable, reliable, sustainable, and modern energy to alleviate energy poverty, in

alignment with the Paris Climate Agreement goal to limit global average temperature increases to well below 2 Degrees C above pre-industrial levels." The proposal is new in 2019 and notes the "dual challenge" of sustainable energy needs for the one billion people without access to energy. Supplying energy to developing markets to enable development is a theme ExxonMobil has stressed in its annual energy assessments for many years.

The company has challenged the resolution at the SEC, arguing it relates to ordinary business because it is micromanagement, is moot given current reporting and duplicates the resolution from NYSCRF asking for GHG goals reporting. ExxonMobil says it will include the NYSCRF proposal in its proxy statement.

Deforestation and Sustainable Energy Access

Company	Proposal	Lead Filer	Status
Aramark	Report on supply chain deforestation impacts	Green Century	withdrawn
ExxonMobil	Report on sustainable energy access	Srs. St. Dominic of Caldwell, N.J.	May
Kroger	Report on supply chain deforestation impacts	Green Century	June
Mondelēz International	Report on supply chain deforestation impacts	SumOfUs	May
Yum Brands	Report on supply chain deforestation impacts	7th Generation Interfaith CRI	May

ENVIRONMENTAL MANAGEMENT

Proponents continue to raise concerns about corporate environmental impacts outside the direct climate and energy umbrella, although climate change permeates all of them to some extent. The greatest number (nine proposals) relate to waste, with a new set of proposals in 2019 about plastics, and several reprise concerns about recycling and food waste. Two are on water, down from five last year, and one about a nuclear plant closure has been omitted although another is pending. *(Five proposals about antibiotics and pesticides appear under Industrial Agriculture, p. 32.)*

Environmental Management

Company	Proposal	Lead Filer	Status
Waste			
Amazon.com	Report on food waste management	JLens	May
Chevron	Report on plastics pollution	As You Sow	May
DowDupont	Report on plastics pollution	As You Sow	April
ExxonMobil	Report on plastics pollution	As You Sow	May
McCormick & Company	Report on packaging	As You Sow	3/27/19
PepsiCo	Report on recycling strategy	As You Sow	May
Phillips 66	Report on plastics pollution	As You Sow	May
Starbucks	Report on packaging	As You Sow	3/20/19
Yum Brands	Adopt recycling goals	As You Sow	May
Water			
Energen	Report on water use risks	As You Sow	May
Pilgrim's Pride	Report on water impacts and policy	Socially Responsible Investment Coalition	May
Nuclear Power			
DTE Energy	Report on benefits of early nuclear plant closure	Kenneth Fink	omitted
PNM Resources	Report on nuclear plant financial risks	Sam and Wendy Hitt Family Trust	May

Waste

Plastics: New in 2019 is a resolution from As You Sow about "nurdles." It asks **Chevron**, **DowDupont**, **ExxonMobil** and **Phillips 66** to produce annual report "on plastic pollution," saying the report "should disclose trends in the amount of pellets, powder or granules released to the environment by the company annually, and concisely assess the effectiveness of the company's policies and actions to reduce the volume of the company's plastic materials contaminating the environment."

The proposal notes each firm produces petrochemicals and says each makes "pre-production pellets, or nurdles, manufactured in polymer production plants." But "spills and poor handling procedures" mean "billions of such plastic pellets are swept into

waterways during production or transport annually and increasingly found on beaches and shorelines, adding to harmful levels of plastic pollution in the environment." It describes the negative impacts this has on ocean species, directly and also by creating toxins marine species consume and pass on to humans. The proposal notes an anti-pollution pledge in December 2017 by the UN Environmental Assembly in Nairobi, supported by 200 countries and the U.S. Microbead-Free Waters Act of 2015 that prohibited some microplastics in cosmetics. It concludes there is "an urgent need" for more information about corporate efforts to curb spills of plastic pellets and remediation-related pollution and suggests the report "include discussion of pellet loss prevention, cleanup and containment."

The proposal notes that the joint venture Chevron Phillips Chemical, owned by Chevron and Phillips 66, "is one of the world's top producers of olefins and polyolefins," that DowDupont "is one of the world's largest plastics and resins manufacturers," and that ExxonMobil "is one of the world's largest chemical companies and a top producer of plastics such as polypropylene and polyethylene." It points out that Operation Clean Sweep, supported by ExxonMobil, encourages best practices but "provides no public reporting."

advocacyposition

FOSSIL FUEL INDUSTRY SEES PLASTIC AS SAVING GRACE, BUT DEMAND MAY PLUMMET

LILA HOLZMAN
Energy Program Manager, As You Sow

CONRAD MACKERRON
Senior Vice President, As You Sow

Plastics and other petrochemical goods are set to overtake the transport sector as the largest driver of global oil demand. Oil and chemical companies have invested a whopping $180 billion in new and projected plastics facilities, largely due to the fracking boom. But calls by governments and a variety of stakeholders to reduce single use plastics raise questions about whether projected demand for plastic products may slump, resulting in stranded petrochemical assets. Furthermore, extreme weather is creating new risks from flooding that exacerbate plastics pollution risks from petrochemical plants.

Demand in question: The European Union recently agreed to ban several types of single use plastics, including straws, plates and cutlery. Seventy large brand owners—including **Coca-Cola**, **Colgate-Palmolive**, **PepsiCo**, and **Unilever**—signed a Global Commitment convened by the Ellen MacArthur Foundation's New Plastics Economy project to make all plastic packaging recyclable; to eliminate "problematic or unnecessary" plastic packaging; to increase recycled content; and to move away from single use plastic to reuse models where relevant, all by 2025. More than 50 countries have banned thin film plastic bags. All of these actions could decrease demand for plastic.

As You Sow has successfully engaged the consumer goods sector to replace harmful plastics with more sustainable packaging and to increase recycling, with several recent key wins. **McDonald's** agreed to stop using polystyrene foam and to recycle all its packaging. **Starbucks** agreed to phase out plastic straws. Colgate-Palmolive, **KraftHeinz**, **Mondelēz International**, **Procter & Gamble** and Unilever have committed to make their packaging recyclable. *As You Sow* is now leading the Plastics Solutions Investor Alliance, a group of 40 investors with $1 trillion in assets to engage other consumer goods companies to reduce plastic use and ramp up recycling.

If significant uses of plastic are phased out as a result of shareholder engagement, government bans, and voluntary actions like the Global Commitment, and if recycling can be dramatically increased though improved collection and processing, demand for virgin plastic resins would shrink. This would affect oil and gas company financial projections.

Extreme weather safety risks: As energy and chemical giants like **ExxonMobil**, **DowDupont**, **Shell**, and **Chevron** propose new petrochemical infrastructure, investors must ask not only if the buildup is justified, but also if facilities are safe. Ethane is a byproduct of the fossil fuel fracking process. Like methane, it is a greenhouse gas that contributes to global warming, creates ozone and increases asthma incidence. Ethane extracted from fracked gas can be converted in "cracking plants" to ethylene, a common building block of plastics. Communities near crackers are increasingly exposed to toxic air quality and health impacts. Cracking plants are popping up across the country, particularly in the Gulf Coast and Mid-Atlantic/Northeast.

In addition to high emissions resulting from routine cracking operations, companies tend to locate facilities in high-risk flood zones, such as those inundated by Hurricane Harvey. This buildup of operations in areas prone to flooding, especially as climate-related flooding increases in intensity and frequency, is troubling and is raised in *As You Sow* resolutions this year at ExxonMobil and DowDupont about petrochemical releases. Further, reports of spills of pre-production plastic pellets prompted *As You Sow* to file proposals with Chevron, DowDuPont, ExxonMobil, and **Phillips 66**, asking for transparency on pellets spills and measures that might avoid future spills.

Worldwide, progress is being made to shift away from fossil fuels as energy markets transition to clean energy sources. While producing plastic is being viewed as an alternative profit stream when fossil fuel demand dwindles, energy experts suggest this could be a risky bet. Resolutions this year continue to press companies to prepare for falling fossil fuel demand in a way that creates long-term, sustainable value for all stakeholders.

SEC action—Chevron has challenged the proposal at the SEC, arguing it cannot implement the proposal since it does not own a facility that makes plastic pellets and has only a partial stake that it does not control in a joint venture that does make them. Phillips 66 echoes this argument and also says the resolution is too vague and that As You Sow did not provide sufficient proof of its stock ownership. For its part, ExxonMobil contends the proposal seeks to "micromanage" it, and it therefore is ordinary business.

Recycling and sustainable packaging: At **McCormick & Co.**, which has never had a proposal before, and **Starbucks**, a familiar target of recycling pressure, As You Sow is asking for a "report…on reducing the Company environmental impacts by stepping up the scale and pace of its sustainable packaging initiatives." The McCormick proposal makes clear in its supporting statement and elsewhere that its primary concern is plastic packaging. A similar proposal at Starbucks earned 29 percent in 2018, while earlier resolutions to Starbucks about recycling goals earned around 10 percent in 2010 and 2011.

Although McCormick has identified sustainable packaging as a top priority and set goals to cut its packaging carbon footprint by one-quarter by 2025 and eliminate bisphenol A (BPA) by the end of 2018, the proposal says this aim "will likely increase the number of plastic items entering waste streams and the environment, since the company has replaced metal containers with plastics. Further, it says, the company's expansion in emerging markets that have little recycling and waste management infrastructure is likely to increase plastic waste. As You Sow suggests the company should follow the example of peer firms with "reusable, recyclable, or compostable plastic packaging."

At **PepsiCo**, As You Sow points out it withdrew a 2010 resolution asking for more recycling when the company pledged to work towards a 50-percent rate for beverage containers by 2018, noting that only 36 percent of containers are now recycled. It expresses concern about plastics pollution and inadequate reporting by Pepsi. The resolution seeks a report about "reducing the company's environmental impact by describing actions taken and lessons learned to date in quest of the 50% beverage container recycling goal, and progress in developing revised plans for meeting its commitment to leadership actions to help increase U.S. container recycling rates." The company has challenged the resolution at the SEC, arguing it is moot because recycling information is included in current policies and disclosures.

At **Yum Brands**, As You Sow also is taking aim at plastic pollution and Styrofoam waste, where the group last year achieved a major victory when McDonald's agreed to phase out foam packaging. As You Sow and Yum Brands have a long history with recycling. Most recently, the group withdrew a 2016 proposal about on-site recycling after an SEC challenge and a new effort from the company on recycling. This year, the proposal asks for a report "detailing efforts to achieve environmental leadership through a comprehensive policy on sustainable packaging."

Food: JLens is asking **Amazon.com** to report annual "on the environmental and social impacts of food waste generated from the company's operations given the significant impact that food waste has on societal risk from climate change and hunger." The resolution draws a connection between food waste, reducing GHG emissions and providing food redistribution options, noting the Sustainability Accounting Standards Board's assessment that food waste is material to food distributors performance and its recommendation for reporting on metrics.

The company has challenged the proposal at the SEC, arguing it is not significantly related to its business and also concerns ordinary business. The latter argument succeeded in 2018, but another similar proposal earned 30.3 percent at Whole Foods before it was bought by Amazon.

Water

A reformulated proposal about water at **Pilgrim's Pride** asks it to report by December "on how the company is responding to increasing regulatory, public and competitive pressure to significantly reduce water pollution from the company's owned facilities; facilities under contract; and suppliers." Proposals with the same thrust earned 6.6 percent in 2018 and 14.7 percent in 2017. The proposal makes clear its concern is about water pollution from the company's chicken production plants; it lists a number of fines levied against the company for recent violations.

In a different industry altogether, proponents at **Energen** want a report "on its climate-related water risk, including comprehensive strategies to mitigate that risk beyond regulatory requirements." As You Sow notes growing water shortages nationwide that it says present the company with a "material liability" since shortages could prompt shutdowns for oil and gas operations such as Energen's which use "significant amounts of water" and yet are located in areas of scare water resources. The proposal suggests peer companies provide better information. The proposal suggests Energen should disclose its water sources and how much it withdraws and consumes, competing local demands for supplies, water quality impacts from leaks or wastewater discharges, and quantitative goals for water management and use reduction. Recent resolutions at the company have focused on methane, but a hydraulic facturing proposal in 2011 earned 49.5 percent.

Nuclear Power

Two resolutions have been filed but only one is now pending. One to **DTE Energy** repeated a proposal from last year that earned 5.8 percent, asking for an independent analysis about costs for closing the company's Fermi 2 nuclear plant. But it was filed too late and has been omitted.

The remaining resolution is at **PNM Resources**. It asks for a report on "the financial impacts to shareholders if purchasing the currently leased assets in the Palo Verde Nuclear Generating Station ("PVNGS") is disallowed by the New Mexico Supreme Court and the New Mexico Public Regulation Commission." The key question is whether ratepayers or investors will be on the hook for the nuclear plant decommissioning costs. The proposal is new in 2019, although various other proposals about climate change have gone to votes at the company recently.

INDUSTRIAL AGRICULTURE

Only eight proposals have emerged so far in 2018 on industrial agriculture issues—four on familiar concerns about antibiotics, one on pesticides, and three about products made from animals.

Farming Practices

Antibiotics: Four proposals about the use of antibiotics in the food animal supply have been filed.

At **Costco** and **Sanderson Farms**, As You Sow withdrew at both companies after agreements. They had asks each for "an enterprise-wide policy to phase out the use of medically important antibiotics in its store brand meat and poultry supply chain, with an exception for treatment and non-routine control of diagnosed illness." At Sanderson, which until last year challenged the idea that food animal antibiotics use presented harms to humans, the agreement came after growing investor support; a similar proposal earned 43.1 percent last year and 31.5 percent in 2017.

advocacyposition

INVESTORS DRIVE MARKET FORCES FOR PROGRESS ON ANTIBIOTICS IN FACTORY ANIMAL FARMING

CHRISTY SPEES

Environmental Health Program Manager, As You Sow

The meat and poultry industries have made significant progress in tackling antibiotic resistance over the past four years, encouraged by persistent shareholder engagement on this critical issue.

The overuse of antibiotics in humans and animals is causing previously controlled diseases to become fatal. If nothing is done to address this problem, antibiotic resistance could cause 300 million premature deaths and up to $100 trillion in global economic damage by 2050. *As You Sow* has been working with food companies to dramatically reduce or eliminate the use of antibiotics used in animals raised for food.

Animal agriculture is a major contributor to the problem of antibiotic resistance. On industrial farms, it has been common practice to give small doses of antibiotics to healthy animals to make them grow faster or to prevent them from falling ill from poor diet and crowded, unsanitary conditions. In 2017, new FDA guidelines banned the routine use of these drugs for growth promotion, resulting in a drop in sales of antibiotics for use in animals; but a major loophole remains that allows farmers to routinely administer antibiotics for preventive purposes.

A growing number of companies now address the problem by restricting the use of medically important antibiotics in animals further than government guidelines demand, recognizing the laws as insufficient. The chicken industry, in particular, has come a long way. Following pressure from investors and other groups, in 2018, **Sanderson Farms** finally announced a policy to eliminate the use of medically important antibiotics in its operations, becoming the last of the four largest chicken producers in the country to do so.

The fast food and restaurant sectors remain major targets of investor advocacy as investors continue to highlight the opportunity to win customers by providing higher standards for meat, and to point out the reputational and market risks for not doing so. The restaurant and fast food sectors represent the majority of engagements for the Farm Animal Investment Risk & Return Network (FAIRR), a global initiative working on food and environmental concerns.

Investors have engaged with **McDonald's** for several years, beginning with a shareholder resolution filed in 2016 that proponents withdrew after the company agreed to eliminate chicken raised with medically important antibiotics from its supply chains. In 2018, the company made headlines by announcing a comprehensive policy for the use of antibiotics in its beef supply chains; the announcement followed investor pressure and the publication of the fourth Chain Reaction scorecard, which highlighted the failures of fast food chains to restrict the use of antibiotics in beef. McDonald's is the largest single purchaser of beef in the world; the company's action is expected to create a wave of change in the industry.

Successful shareholder engagement also has encouraged recent progress by **Brinker International** (parent of Chili's and Maggiano's restaurants), **Dine Brands Global** (parent of Applebee's and IHOP), and **Denny's**. This effort continues to gain momentum and we see more change coming ahead.

A **Domino's Pizza** proposal seeks "a policy that sets national sourcing targets with timelines for pork and beef raised without the routine use of medically-important antibiotics for disease prevention purposes." The company has lodged a challenge at the SEC, arguing it relates to ordinary business via micromanagement, but it also says the proposal is false and misleading in its statements about antibiotics and the meat supply chain. The argument invokes SEC Staff Legal Bulletin 14J and its definition of ordinary business.

Proponents at **McDonald's** also want "an enterprise-wide policy to phase out the use of medically important antibiotics for disease prevention purposes in its beef and pork supply chains." The proponents withdrew a very similar proposal in 2018 after the company indicated it would announce an antibiotics use policy for its beef supply chain by the end of 2018. The company had challenged the resolution at the SEC, but the withdrawal came before any SEC response. Similar earlier proposals earned 31 percent in 2017 and 26.3 percent in 2016. The company has pledged to end the use of antibiotics for chickens but has been slow to extend the prohibition to beef and pork, which have more complex supply chains.

Pesticides: Just one resolution about pesticides has appeared in 2019, at **PepsiCo**, where it has come up repeatedly in the past. As You Sow wants the company to report on "quantitative metrics demonstrating measurable progress toward the reduction of synthetic chemical pesticide use in the Company's supply chain." The proposal suggests the requested report should include a risk assessment about current pesticide use, metrics for tracking crops treated with synthetic pesticides and information about any growth in using integrated pest management.

PepsiCo has challenged the proposal at the SEC, arguing it is moot given its existing sustainable agriculture policy and disclosure about integrated pest management incidence. Last year, As You Sow filed and then withdrew a pesticides proposal at the company after a company challenge.

Animal Products

Proposals this year about animal-derived products deal with fur and down. At **Kohl's**, Harrington Investments wants the company to "adopt a vendor policy regarding oversight on preventing cruelty to animals throughout the supply chain," pointing out that it has no policy about animal welfare in its supply chain. Previous resolutions from the Humane Society of the United States about fur products sold by Kohl's earned about 3 percent in 2012 and 2013.

At another clothing company, **TJX**, Harrington wants the company to "amend its Vendor Code of Conduct, or take equivalent action in other enforceable governance documents, to ensure prevention of cruelty to animals consistently throughout the supply chain." The resolution takes issue with the company's policy about fur products. (A 2018 proposal about fur and wool products from Harrington was omitted on ordinary business grounds.)

People for the Ethical Treatment of Animals (PETA) has filed its first proposal to **Bed Bath & Beyond**. It says, "Given the cruel and inhumane treatment of birds used in down production, the Board is strongly encouraged to enact a policy ensuring that no products sold by Bed Bath & Beyond Inc. contain down."

Industrial Agriculture

Company	Proposal	Lead Filer	Status
Farming Practices			
Costco Wholesale	Phase out antibiotic use in animal feed	As You Sow	withdrawn
Domino's Pizza	Phase out antibiotic use in animal feed	Green Century	April
McDonald's	Phase out antibiotic use in animal feed	Benedictine Srs., Boerne - TX	May
Sanderson Farms	Phase out antibiotic use in animal feed	As You Sow	withdrawn
Pesticides			
PepsiCo	Report on pesticide monitoring	As You Sow	May
Animal Products			
Bed Bath & Beyond	End sales of animal products	PETA	June
Kohl's	Adopt policy on animal welfare in supply chain	Harrington Investments	May
TJX	Adopt policy on animal welfare in supply chain	Harrington Investments	June

SOCIAL ISSUES

ANIMAL TESTING

In addition to filing resolutions about animal products, noted above, PETA this year has a proposal that raises concern about a type of laboratory animal test that has never been addressed in a shareholder proposal before. Filed at **AbbVie**, **Bristol-Myers Squibb**, **Eli Lilly** and **Pfizer**, it asks each company not to use the "Forced Swim Test" in experiments that simulate drowning for the development of anti-depression medication, saying it has "questionable scientific validity." PETA withdrew at AbbVie, noting in a December press release that the company agreed not to use the test. The other three recipients all have lodged challenges at the SEC. All three companies say it concerns ordinary business, while Eli Lilly and Pfizer also argue it is not significantly related to their operations. Pfizer notes it has not used the test to which PETA objects since 2009 and has no plans to use it in the future.

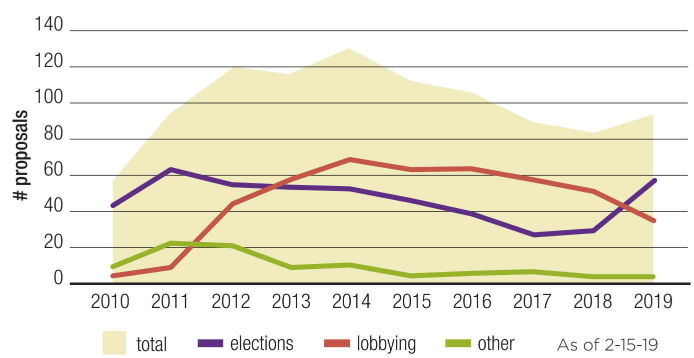
Animal Testing

Company	Proposal	Lead Filer	Status
AbbVie	Phase out/end animal testing	PETA	withdrawn
Bristol-Myers Squibb	Phase out/end animal testing	PETA	May
Eli Lilly	Phase out/end animal testing	PETA	May
Pfizer	Phase out/end animal testing	PETA	April

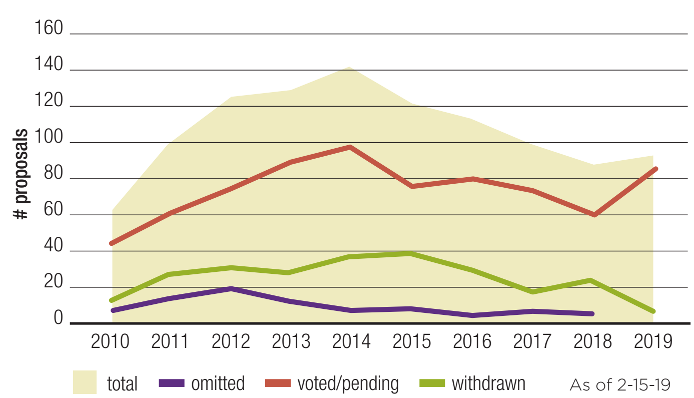
CORPORATE POLITICAL ACTIVITY

The number of resolutions on corporate political activity has risen some this year after gradually falling from a high in 2014. Lobbying and election spending continue to be the main issues and intense public discord in the political arena seems certain to keep the issue on annual meeting agendas. Proponents have filed 93 resolutions so far in 2019, up from 80 last year and about the same as in 2017; more are likely during the year. In a shift from 2018, more this year address election spending than lobbying; disclosure remains a common goal of both. *(Only a few other issues about political activity get raised as noted on the graph at right.)* Despite the decline in proposals filed, the tally going to votes has not fallen much, since proponents are less likely than in the past to withdraw them. *(Bottom graph, right.)*

Political Activity Proposal Types



Outcome of Political Activity Proposals



Requests for corporate oversight and disclosure of about election spending are more common than those for lobbying, although it remains true that lobbying budgets dwarf those for elections. Transparency is increasing some, but most companies still are reluctant to disclose memberships and payments to intermediary groups that legally may shield their funders—trade associations, "social welfare organizations" (known as 501 (c)4 groups for their tax exemption in the Internal Revenue Code) and charitable groups such as the American Legislative Exchange Council (ALEC) that skirt political activity prohibitions.

Shareholder proponents include social investment and religious organizations, leading pension funds such as the New York City pension funds and NYSCRF, trade unions and some individuals. Investor concern about

corporate election spending began in earnest when the Center for Political Accountability (CPA) started in 2003 and intensified after the *Citizens United* U.S. Supreme Court decision in 2010. The CPA's model oversight and disclosure approach is the standard template for lobbying transparency, too, and forms the basis for the lobbying disclosure campaign run by Walden Asset Management and the American Federation of State, County and Municipal Employees (AFSCME). The umbrella Corporate Reform Coalition supports shareholder activity on corporate spending and includes other reformers, as well.

Key references for investors are the CPA's CPA-Zicklin Index, most recently updated in October 2018, covering the S&P 500 index. The Conference Board's Committee on Corporate Political Spending offers a more corporate but generally supportive perspective on disclosure and oversight, but it has had little recent activity.

Multiple proposals: Since 2013, proponents have been able to file both election spending and lobbying proposals at the same company; before that the SEC judged them to have such substantial overlap that a company was allowed to omit the one it received second. This year five companies have two such requests—**American Water Works**, **Duke Energy**, **ExxonMobil**, **Ford Motor** and **Nucor**.

In addition, both **Honeywell** and **Pfizer** received proposals from free market proponents that use the same resolved clause as the AFSCME/Walden version, while praising each company's lobbying efforts. *(See Conservatives section for details.)* These "copy-cat" proposals, if received before those from the main campaign, can bump off the duplicative proposal, as happened at **Duke Energy** last year.

Election Spending

The Center for Political Accountability and its allies, a wide variety of institutional investors, are continuing the campaign begun in 2003. Nineteen of the resolutions are resubmissions (one is not public).

advocacyposition

SHAREHOLDERS EXPAND POLITICAL DISCLOSURE AND ACCOUNTABILITY EFFORT AS 2020 ELECTIONS HEIGHTEN COMPANY RISKS

BRUCE FREED
President, Center for Political Accountability

DAN CARROLL
Director of Programs, Center for Political Accountability

As the 2020 campaign heats up, public companies face much greater risk from political spending. The 2018 elections provided a foretaste of what companies can expect when contributions associate them with candidates who make questionable remarks or take positions that conflict with companies' core values and positions.

Walmart and **Aetna** demanded the return of their PAC contributions to Mississippi Republican Senator Cindy Hyde-Smith after it was disclosed she had joked about wanting a front-row seat if a public lynching were held. Protestors staged "die-ins" at Publix Super Markets following the Parkland, Florida school shooting massacre a year ago, protesting the company's financial support for Florida gubernatorial candidate Adam Putnam (R); he called himself a "proud NRA sellout" in the campaign.

The Center for Political Accountability (CPA) warned companies of the heightened challenges in its "Collision Course" report released in June 2018. It was the first examination of the risks companies face from contradictory political spending and an energized social media. It also laid out steps that companies should take to manage these risks.

Today's hyperpolarized environment makes it imperative for companies to adopt political spending disclosure and accountability. The 2018 CPA-Zicklin Index, our annual benchmarking of such policies by the S&P 500, found that companies recognize this need. Not only have close to 300 companies—three-fifths of the S&P 500—adopted some form of political disclosure, but:

- 57 companies in the S&P 500 have the best policies, receiving the highest scores for political disclosure and accountability of 90 percent or above. That's up from 50 companies last year, 41 in 2016 and 28 in 2015. These Trendsetters spanned all sectors of the economy.
- 176 companies—one-third of the S&P 500—placed some level of restriction on their election-related spending. That compares with 158 last year and 125 in 2015.
- There was an uninterrupted upward trend in the number of companies with some form of board oversight of corporate political spending. For review of direct political contributions and expenditures, this number increased to 221 companies in 2018, from 209 in 2017 and 143 in 2015.

This proxy season, CPA is building on this momentum with a greatly expanded effort. New shareholder partners have joined to file the Center's model resolution at 57 companies filed to date. It is double the number filed last year.

The proxy season had a strong opening when CPA partner Investor Voice, along with the New York State Comptroller's Office, reached a landmark agreement with **General Electric**. The company will significantly expand transparency of its election-related spending by closing "dark money" holes. It agreed to disclose contributions to secretive "social welfare" organizations and to lower the threshold that triggers reporting of its dues and other payments used by trade associations for election-related and lobbying spending.

Learn what your company spends

CPA's political spending database, TrackYourCompany.org, has been updated through 2017. It includes voluntary disclosure reports posted by S&P 500 companies by ticker, type of recipient, industry, state, year, and political party and is used to track the full scope of company election spending.

Election Spending

Company	Proposal	Lead Filer	Status
Alaska Air Group	Review/report on election spending	John Chevedden	May
Alexion Pharmaceuticals	Review/report on election spending	Friends Fiduciary	May
Allstate	Review/report on election spending	Teamsters	May
American Airlines Group	Review/report on election spending	John Chevedden	June
American Tower	Review/report on election spending	James McRitchie	May
American Water Works	Review/report on election spending	Trillium Asset Management	May
Ameriprise Financial	Review/report on election spending	Newground Social Investment	April
Ball Corporation	Review/report on election spending	Teamsters	April
CarMax	Review/report on election spending	Teamsters	June
Centene	Review/report on election spending	Friends Fiduciary	April
Charles Schwab	Review/report on election spending	James McRitchie	May
Chemed	Review/report on election spending	John Chevedden	May
Chubb Limited	Review/report on election spending	Trillium Asset Management	May
CMS Energy	Review/report on election spending	Newground Social Investment	May
Cognizant Technology Solutions	Review/report on election spending	James McRitchie	June
DaVita HealthCare Partners	Review/report on election spending	James McRitchie	June
Devon Energy	Review/report on election spending	Nathan Cummings Foundation	June
DTE Energy	Review/report on election spending	Mercy Investment Services	May
Duke Energy	Review/report on election spending	New York State Common Retirement Fund	May
Equinix	Review/report on election spending	John Chevedden	June
Expeditors International of Washington	Review/report on election spending	John Chevedden	May
ExxonMobil	Review/report on election spending	Unitarian Universalists	May
Fiserv	Review/report on election spending	John Chevedden	May
Ford Motor	Review/report on election spending	Mercy Investment Services	May
Fortune Brands Home & Security	Review/report on election spending	Sonen Capital	May
General Electric	Review/report on election spending	New York State Common Retirement Fund	withdrawn
Henry Schein	Review/report on election spending	Sonen Capital	May
Hilton Worldwide Holdings	Review/report on election spending	New York State Common Retirement Fund	May
Illumina	Review/report on election spending	James McRitchie	May
Ingersoll-Rand	Review/report on election spending	Sonen Capital	June
J.B. Hunt Transport Services	Review/report on election spending	Teamsters	April
Kimberly-Clark	Review/report on election spending	NYC pension funds	May
Kohl's	Review/report on election spending	John Chevedden	May
Kroger	Review/report on election spending	New York State Common Retirement Fund	June
Loews	Review/report on election spending	Clean Yield Asset Management	May
Macy's	Review/report on election spending	Mercy Investment Services	May
Mondelēz International	Review/report on election spending	Mercy Investment Services	May
MSCI	Review/report on election spending	James McRitchie	May
Netflix	Review/report on election spending	James McRitchie	June
NextEra Energy	Review/report on election spending	New York State Common Retirement Fund	May
Northern Trust	Review/report on election spending	Unitarian Universalists	April
Nucor	Review/report on election spending	First Affirmative Financial Network	May
PayPal	Review/report on election spending	James McRitchie	May
Red Hat	Review/report on election spending	James McRitchie	August
Reliance Steel & Aluminum	Review/report on election spending	John Chevedden	May
Republic Services	Review/report on election spending	Teamsters	May
Roper Technologies	Review/report on election spending	Sonen Capital	June
Royal Caribbean Cruises	Review/report on election spending	New York State Common Retirement Fund	May
Simon Property Group	Review/report on election spending	New York State Common Retirement Fund	May
SVB Financial Group	Review/report on election spending	Clean Yield Asset Management	April
Tractor Supply	Review/report on election spending	James McRitchie	May
Valero Energy	Review/report on election spending	Unitarian Universalists	withdrawn
Western Union	Review/report on election spending	John Chevedden	May
Wyndham Worldwide	Review/report on election spending	Mercy Investment Services	May
Wynn Resorts	Review/report on election spending	New York State Common Retirement Fund	May
Xylem	Review/report on election spending	Sonen Capital	May

The standard CPA proposal, which has not been changed for several years, asks 57 companies to produce a report, with semiannual updates, on:

1. Policies and procedures for making, with corporate funds or assets, contributions and expenditures (direct and indirect) to (a) participate or intervene in any political campaign on behalf of (or in opposition to) any candidate for public office, or (b) influence the general public, or any segment thereof, with respect to an election or referendum.
2. Monetary and non-monetary contributions and expenditures (direct and indirect) used in the manner described in section 1 above, including:

a. The identity of the recipient as well as the amount paid to each; and

b. The title(s) of the person(s) in the Company responsible for decision-making.

Withdrawals: In a departure from its previous stance, **General Electric** agreed to publicly disclose the non-deductible portion of its annual payments to any trade association that receives dues and other payments totaling over $50,000 annually. In addition, it will also begin semi-annual disclosure of "social welfare" group contributions. The moves persuaded NYSCRF to withdraw the proposal. The Unitarians also have withdrawn at **Valero** after a challenge in which the company argued the proposal was moot because of its policy on political activity, and false and misleading because the proposal inaccurately stated, among other things, that its trade association payments are undisclosed whereas the company actually discloses them.

Lobbying

The lobbying transparency campaign is coordinated by Walden Asset Management and the American Federation of State, County and Municipal Employees (AFSCME).

advocacyposition

COMPANIES PUBLICALLY SUPPORT CLIMATE POLICIES BUT LOBBY AGAINST THEM

JOHN KEENAN
Corporate Governance Analyst, AFSCME Capital Strategies

In 2019, the investor campaign for lobbying disclosure is focusing on corporate political responsibility, with an increased concentration on climate change lobbying. More than 30 proposals have been filed asking companies to disclose their federal and state lobbying, trade association payments and support for the American Legislative Exchange Council (ALEC).

Corporate lobbying can provide decision-makers with valuable insights and data, but it can also lead to undue influence, unfair competition and regulatory capture. In the U.S., $3.4 billion was spent on federal lobbying in 2018, and over $1 billion is spent yearly to lobby at the state level, where disclosure is less robust. Trade associations spend over $100 million annually lobbying indirectly on behalf of companies.

Disclosure is important for investors because corporate lobbying presents reputational and financial risks. If lobbying had no effect upon company value, then companies would not be doing it. A risk for investors occurs when a company's lobbying, done directly or through a third party, contradicts a company's public position or core values.

The lobbying proposals highlight assertions about corporate political responsibility. While many corporations take credit for green deeds and sustainability efforts, their lobbying often tells another story. Today companies like **ExxonMobil** and **Ford** issue reports lauding their conservation and environmental efforts. But investors have discovered many of these companies are lobbying, often through their trade associations, to block policies to address climate change. For example, many companies belong to the Chamber of Commerce, which consistently opposes climate change regulation and spent $95 million to lobby in 2018.

Investors seeking disclosure believe that companies that embrace sustainability must be transparent about their political activity, as their lobbying can have great influence on protecting, or harming, the environment. Does a company's lobbying align with its values and goals? As evidenced with climate, many companies are not consistent in their policy engagement, and trade association lobbying conducted on their behalf is not aligned with company positions.

The 2019 proposals focus on companies that lobby heavily at the federal and state levels, do not disclose their trade associations lobbying payments and are members of ALEC, which also undermines climate change regulation. In addition to climate lobbying, the proposals also target lobbying misalignments on childhood obesity, drug pricing, net neutrality, opioids, sick leave, shareholder rights and tobacco.

Since 2011, AFSCME and Walden Asset Management have led a coalition of investors comprised of religious investors, foundations, public and labor pension funds, asset managers and international and individual investors in filing over 380 shareholder proposals. The campaign has produced over 75 agreements to provide greater lobbying disclosure, and coalition members have engaged more than 80 companies that have left ALEC, including notable 2018 departures **AT&T**, ExxonMobil, **Honeywell** and **Verizon**. But the need for a uniform standard of disclosure remains, as called for in a rulemaking petition presented to the SEC in October from a $5 trillion coalition of investors seeking broader ESG disclosures, including political spending disclosure.

Lobbying

Company	Proposal	Lead Filer	Status
All Political Activity			
Alliant Energy	Report on election spending and lobbying	NYC pension funds	May
NRG Energy	Report on election spending and lobbying	NYC pension funds	April
Lobbying			
AbbVie	Report on lobbying	Zevin Asset Management	May
Altria	Report on lobbying	Trinity Church Wall Street	May
American Water Works	Report on lobbying	Boston Common Asset Management	May
AT&T	Report on lobbying	Walden Asset Management	withdrawn
Bank of America	Report on lobbying	Dana Investments	withdrawn
BlackRock	Report on lobbying	Unitarian Universalists	May
Boeing	Report on lobbying	Midwest Capuchins	April
CenturyLink	Report on lobbying	AFL-CIO	May
Chevron	Report on lobbying	Philadelphia Public Employees Retirement System	May
Comcast	Report on lobbying	Friends Fiduciary	June
Duke Energy	Report on lobbying	Mercy Investment Services	May
Emerson Electric	Report on lobbying	The Sustainability Group	withdrawn
Equifax	Report on lobbying	Friends Fiduciary	May
ExxonMobil	Report on lobbying	United Steelworkers	May
Ford Motor	Report on lobbying	Unitarian Universalists	May
General Motors	Report on lobbying	NYC pension funds	June
Honeywell International	Report on lobbying	Azzad Asset Management	April
International Business Machines	Report on lobbying	Walden Asset Management	withdrawn
JPMorgan Chase	Report on lobbying	Walden Asset Management	withdrawn
Mastercard	Report on lobbying	Rhode Island Pension Fund	June
Morgan Stanley	Report on lobbying	Boston Common Asset Management	May
Motorola Solutions	Report on lobbying	Mercy Investment Services	May
Nucor	Report on lobbying	Domini Social Investments	May
Oracle	Report on lobbying	Boston Common Asset Management	November
Pfizer	Report on lobbying	Teamsters	April
Tyson Foods	Report on lobbying	Mercy Investment Services	11.1%
United Continental Holdings	Report on lobbying	Nathan Cummings Foundation	May
United Parcel Service	Report on lobbying	Walden Asset Management	May
Verizon Communications	Report on lobbying	Boston Common Asset Management	May
Vertex Pharmaceuticals	Report on lobbying	Friends Fiduciary	May
Walt Disney	Report on lobbying	Zevin Asset Management	3/7/19
Other Political Activity			
Citigroup	Prohibit government service golden parachute	AFL-CIO	April
Intel	Adopt advisory vote on political spending	NorthStar Asset Management	May
JPMorgan Chase	Prohibit government service golden parachute	AFL-CIO	May

Primary resolution: The resolved clause for the main campaign resolution remains the same and has been filed at 31 companies, down from 47 last year. Most—24—are resubmissions. Five have been withdrawn.

The main proposal asks for an annual report that includes:

1. Company policy and procedures governing lobbying, both direct and indirect, and grassroots lobbying communications.
2. Payments by [the company] used for (a) direct or indirect lobbying or (b) grassroots lobbying communications, in each case including the amount of the payment and the recipient.
3. [The company's] membership in and payments to any tax-exempt organization that writes and endorses model legislation.
4. Description of the decision-making process and oversight by management and the Board for making payments described in sections 2 and 3 above.

For purposes of this proposal, a "grassroots lobbying communication" is a communication directed to the general public that (a) refers to specific legislation or regulation, (b) reflects a view on the legislation or regulation and (c) encourages the recipient of the communication to take action with respect to the legislation or regulation. "Indirect lobbying" is lobbying engaged in by a trade association or other organization of which [the company] is a member.

Both "direct and indirect lobbying" and "grassroots lobbying communications" include efforts at the local, state and federal levels.

The report shall be presented to the Audit Committee or other relevant oversight committees of the Board and posted on [the company]'s website.

Votes—Investors at **Tyson Foods** gave the proposal 11.1 percent on February 7. Another is scheduled for an early vote on March 7 at **Walt Disney**.

Withdrawals—The five agreements reached so far include the following:

- **AT&T** agreed to expand its lobbying disclosure and list its major trade associations and how much they spend on lobbying with company money. AT&T also has withdrawn from ALEC. The proposal was in its sixth consecutive year and had earned about 34 percent from 2016 to 2018, above earlier levels.
- **Bank of America** agreed to policy changes and more disclosure on its website. Proponents withdrew this resolution in 2018 and 2017 after reaching agreements, but it went to votes earlier, earning around 30 percent in 2014, 2012 and 2011. The bank at present does not list all its trade association memberships, dues or lobbying done with its funds through these associations.
- The withdrawal with agreement at **Emerson Electric** came after a vote of 39.6 percent last year in its fifth resubmission, down slightly from 41.6 percent in 2017.
- **IBM** has revamped its website about its political activity policies and spending, with additional information on its views about public policy issues, as well as its approach to grassroots lobbying and more about state lobbying expenditures. This was the ninth year for the resolution at IBM; it earned 32.9 percent in 2018 and 28.5 percent in 2017. Earlier proposals earned about 25 percent.
- At **JPMorgan Chase**, proponents withdrew given ongoing dialogue about lobbying disclosure. This proposal last went to a vote at the company in 2015, earning 6.6 percent support in its third year (not enough for resubmission until 2019); previous support had been less than 10 percent.

SEC action—Lobbying proposals have survived SEC scrutiny for several years. Last year, companies tried to no avail to use SEC Staff Legal Bulletin 14I as a basis for a possible reinterpretation of the "significantly related" section of the shareholder proposal rule the bulletin discusses. In rebutting arguments from **Citigroup**, **Eli Lilly**, **Goldman Sachs** and **Travelers**, SEC staff took note of earlier votes of 20 percent or more, seeing this as a sign of investor interest. In a notable counterargument to Citibank's contention the resolution had no relevance to its business, the proponents pointed out a provision of the 2010 Dodd-Frank financial reform law was dubbed "the Citibank provision" given work by the company's lobbyists. At Goldman, the SEC found the board analysis of the proposal to be lacking and said the firm had not provided "sufficient level of detail to reach a determination that exclusion of the Proposal is appropriate."

This year, **Honeywell** has returned to the SEC with a new argument against the lobbying resolution. It says in its challenge that the proposal is moot given its current disclosures and high rating from the CPA-Zicklin Index. The CPA index does not discuss or rate lobbying, however, which is covered under separate disclosure laws. The Honeywell proposal is a resubmission that earned 40.7 percent in 2018 and 36.7 in 2017—with similar votes logged each year since 2014. (The challenge notes that a second proposal supporting a free market approach to corporate political activity may be excluded because it uses the same resolved clause and was received second, even if the SEC staff does not agree that the proposal is moot.)

Pfizer also received two proposals with the same resolved clause but opposite intent—one from the disclosure campaign filed by the Teamsters and other groups and one from a conservative group, but in this case the conservatives' proposal was postmarked first. Pfizer has written to the SEC requesting a green light to omit the Teamsters proposal, which it will certainly receive. Pfizer also is contending the resolutions relate to ordinary business because they are too detailed and therefore seek to micromanage. The resolution had been voted on in earlier years as part of the AFSCME-Walden campaign. It earned 33.5 percent in 2018, after a withdrawal in 2017 in which Pfizer agreed to annually review its lobbying priorities and spending at the board level and to amend the charter of its governance committee to reflect this.

Hybrid proposal: The New York City pension funds want **Alliant Energy** and **NRG Energy** to report about both lobbying and election spending, in resubmitted proposals that earned 39 percent and 35.2 percent, respectively, last year. The resolution seeks disclosure of all recipients and contributions from company funds with any non-tax-deductible expenses for political activities incurred related to:

> a) influencing legislation, (b) participating or intervening in any political campaign on behalf of (or in opposition to) any candidate for public office, and (c) attempting to influence the general public, or segments thereof, with respect to elections, legislative matters, or referenda. Shareholders request that the report detail any:
>
> - contributions to, or expenditures in support of or in opposition to, political candidates, committees, and parties;
> - dues, contributions, or other payments made to tax-exempt organizations operating under sections 501(c)(3), 501(c)(4), and 527 of the Internal Revenue Code, respectively, including tax-exempt entities that write model legislation, and non-profit groups organized to promote "social welfare";
> - portion of dues or other payments made to tax-exempt entities that are used for an expenditure or contribution and that would not be deductible under section 162(e) of the Code if made directly by the Company.

Other Political Activity Issues

Congruency: NorthStar Asset Management has a new proposal at **Intel** that raises its longstanding concern about consistency between companies' public policy positions and their PAC and corporate spending, while also resurrecting the idea that shareholders should be afforded an advisory vote on prospective corporate spending. It asks the company to

> adopt a policy under which the proxy statement for each annual meeting will contain a proposal on political contributions describing:
>
> - the Company's and [Intel Political Action Committee, "IPAC"] policies on electioneering and political contributions and communications,
> - any political contributions known to be anticipated during the forthcoming fiscal year,
> - management's analysis of the alignment between the Company's and IPAC's prior year and next fiscal year political contribution expenditures as compared to the Company's values, policies, and stated goals and an explanation of the rationale for any contributions found incongruent;
> - management's analysis of any resultant risks to our company's brand, reputation, or shareholder value;
> - and providing an advisory shareholder vote approving or prohibiting political contributions for the forthcoming year.

Notably, the resolution seeks disclosure about the company PAC, not just corporate contributions, similar to a 2017 proposal that earned 7 percent. In 2018, a proposal at Intel seeking a cost-benefit analysis of political spending, also covering PAC activity, earned 6.9 percent.

Government service: Trying to address problems with the "revolving door," the AFL-CIO is continuing to press large financial companies to limit the financial benefits executives may receive if they work for the government. Its "government service golden parachute" proposal—now in its fourth year—is again before **Citigroup** and **JPMorgan Chase**, asking each to "adopt a policy prohibiting the vesting of equity-based awards for senior executives due to a voluntary resignation to enter government service." It goes on to define this as equity-based awards including "stock options, restricted stock and other stock awards granted under an equity incentive plan," and government service as employment by any U.S. federal, state or local government or any "supranational or international organization, any self-regulatory organization, or any agency or instrumentality of any such government or organization, or any electoral campaign for public office."

JPMorgan has a new challenge at the SEC, saying it concerns ordinary business because of micromanagement, citing Staff Legal Bulletin 14J from October 2018 and the bulletin's statement that some executive compensation proposals may be excludable. The bank suggests the proposal may be applicable to employees outside the executive suite. Last year, the SEC rejected a Citibank challenge that said the proposal was financially immaterial and otherwise unrelated to its business, as well as ordinary business. In its response, SEC staff noted that the proposal previously had earned substantial support.

The vote at JPMorgan was 29.3 percent in 2018, 26.7 percent in 2017 and 26.3 percent in 2016. At Citigroup, it was 35.3 percent in 2018, 33.5 percent in 2017 and 30.5 percent in 2016.

DECENT WORK

As economic inequality gapes ever wider in the United States, shareholder proponents have turned their attention to fair pay as well as the working conditions provided by companies. Women and people of color continue to earn less than their white male counterparts and the campaign to rectify these differences continues in 2019. *(Workplace diversity is covered separately in this report, p. 45.)* So far, proponents have filed 37 proposals. As in the last several years *(see graph, page 45)*, most ask for more data on pay disparities. Seven from the New York City pension funds and the trade union consortium Change to Win take up the new issue of the inequitable impact of non-disclosure agreements, while **HollyFrontier** faces a question about accident prevention.

Decent Work

Company	Proposal	Lead Filer	Status
Fair Pay			
Adobe Systems	Report on gender/minority pay disparity	Arjuna Capital	April
Alphabet	Report on gender/minority pay disparity	Arjuna Capital, Proxy Impact	June
Amazon.com	Report on gender/minority pay disparity - global	Arjuna Capital	May
American Express	Report on gender/minority pay disparity	Arjuna Capital	May
Analog Devices	Report on gender/minority pay disparity	Proxy Impact	withdrawn
Arthur J. Gallagher	Report on gender/minority pay disparity	NYC pension funds	May
Bank of America	Report on gender/minority pay disparity - global	Arjuna Capital	April
Bank of New York Mellon	Report on gender/minority pay disparity	Arjuna Capital	April
CIGNA	Report on gender/minority pay disparity	Proxy Impact	April
Cincinnati Financial	Report on gender/minority pay disparity	NYC pension funds	May
Citigroup	Report on gender/minority pay disparity	Arjuna Capital	withdrawn
Citizens Financial Group	Report on gender/minority pay disparity	Pax World Funds	withdrawn
DaVita HealthCare Partners	Report on gender/minority pay disparity	NYC pension funds	June
Facebook	Report on gender/minority pay disparity - global	Arjuna Capital	May
Hartford Financial Services Group	Report on gender/minority pay disparity	NYC pension funds	May
IDEXX Laboratories	Report on gender/minority pay disparity	NYC pension funds	May
Intel	Report on gender/minority pay disparity	Arjuna Capital	May
Intuitive Surgical	Report on gender/minority pay disparity	NYC pension funds	April
JPMorgan Chase	Report on gender/minority pay disparity - global	Arjuna Capital	May
Lincoln National	Report on gender/minority pay disparity	NYC pension funds	May
Marsh & McLennan	Report on gender/minority pay disparity	NYC pension funds	May
Mastercard	Report on gender/minority pay disparity - global	Arjuna Capital	June
Oracle	Report on gender/minority pay disparity	Pax World Funds	November
Pfizer	Report on gender/minority pay disparity	Proxy Impact	withdrawn
Quest Diagnostics	Report on gender/minority pay disparity	NYC pension funds	May
ResMed	Report on gender/minority pay disparity	NYC pension funds	November
TJX	Report on gender/minority pay disparity	Zevin Asset Management	June
Wells Fargo	Report on gender/minority pay disparity	Arjuna Capital	April
Working Conditions			
Alphabet	End inequitable employment practices	NYC pension funds	June
Amazon.com	End inequitable employment practices	Change to Win	May
CBRE Group	End inequitable employment practices	Change to Win	April
CBS	End inequitable employment practices	NYC pension funds	May
Citigroup	End inequitable employment practices	Change to Win	withdrawn
HollyFrontier	Report on accident prevention efforts	United Steelworkers	May
McDonald's	Report on inequitable employment policy impact	Clean Yield Asset Management	May
XPO Logistics	End inequitable employment practices	Change to Win	May
Yum Brands	End inequitable employment practices	Change to Win	May

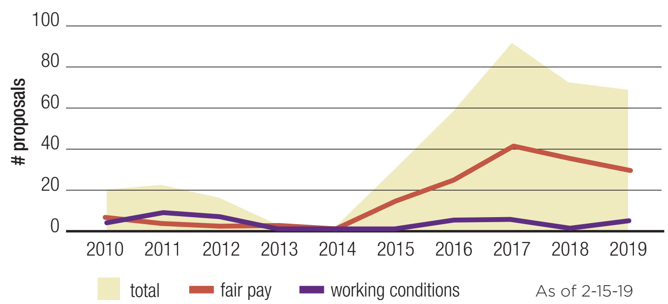
Gender and Minority Pay Equity

Women: Arjuna Capital remains the most prolific of the proponents in this area; the New York City pension funds is a key player, too. Additional proposals on pay equity are from Proxy Impact, a shareholder advocacy advisor, and Pax World Funds submitted and withdrew one proposal.

Arjuna is asking 11 companies, eight of them for the second year running to report on gender pay disparity:

- At six companies—**Adobe Systems**, **American Express**, **Bank of New York Mellon**, **Citigroup**, **Intel** and **Wells Fargo**—it wants a description of "the *risks to the company associated with emerging public policies addressing the gender pay gap*, including associated reputational, competitive, and operational risks, and risks related to recruiting and retaining female talent." It says the gender pay gap is "the difference between male and female median earnings expressed as a percentage of male earnings," as defined by the Organization for Economic Cooperation and Development. The proposal this year is somewhat more specific than last year, when it simply asked for policies and goals "to reduce the gender pay gap."
- At the other six—**Alphabet**, **Amazon.com**, **Bank of America**, **Facebook**, **JPMorgan Chase** and **Mastercard**—it seeks a "report on the company's *global median gender pay gap*" as well as the information requested in the other resolution on risks.

Decent Work Proposals Since 2010



advocacyposition

GENDER PAY GAP IS MORE THAN JUST SALARY – IT IS ALSO ABOUT OPPORTUNITY

MICHAEL PASSOFF
CEO, Proxy Impact

Numerous studies show women are paid less than their male counterparts. This is a key challenge for companies as they face reputational risk, consumer backlash, new legislation and governmental and employee lawsuits. Just the perception of a gender pay gap can make it hard to recruit or keep top talent.

Equal pay is also more than a question of fairness. It would help grow the economy, strengthen single parent families, cut the poverty rate for working women and make business more competitive.

Over the last five years, shareholders have engaged more than 50 companies through dialogues and resolutions, asking about their analyses, policies and goals to track and reduce any gender pay gap. Many of these companies, particularly in the tech and finance sectors, quickly stated that female pay was 99 percent that of male peers.

These responses relied on *adjusted* pay – which looks at comparable criteria such as education, occupation, seniority or geography. This method identifies inequality among similar workers for similar jobs.

One problem with these assertions of 99 percent pay equity is a lack of transparency and the omission of data. For example, Google's 2018 gender pay report did not include the highest earning 11 percent of management (where the biggest discrepancies exist).

Even if all the data are accurate, we are left with a snapshot of equal pay, not a wage gap.

Since 2018, U.K. companies must disclose median and mean gender pay gaps across hourly and bonus earnings. Median pay compares *unadjusted* data. The Organization for Economic Cooperation and Development (OECD) considers this a better measure of the pay gap. The OECD reports that income for women working full time in the U.S. is 80 percent of what men receive. The gap for African American and Latina women is 60 percent and 55 percent. At the current rate, women will not reach pay parity until 2059.

By comparing median pay, the same companies that found 99 percent equal pay in their U.S. operations find differences of 15 to 30 percent (or more) in their U.K. operations. This difference comes from most women being in lower paying jobs (where equal pay is more likely) and higher paid jobs being overwhelmingly male.

While salary policies can help ensure equal pay for equal work, providing equal opportunity to move up the corporate ladder requires more specific action from management, including stronger commitments to recruitment, development and retention.

Ultimately, it is both equal pay and equal opportunity that will eliminate the gender pay gap.

Proxy Impact and Arjuna Capital publish an annual Gender Pay Scorecard. We have found few U.S. companies provide both adjusted and unadjusted data, but a new gender pay report by Citigroup is helping to set a standard for what this reporting should look like.

Only with more complete and transparent reporting will we know if women are being paid equally and moving into higher paying leadership positions.

Votes last year for Arjuna on pay equity were 15.7 percent at **Alphabet**, 15.1 percent at **Express Scripts** and 10 percent at **Facebook**. The group withdrew most of its 2018 filings after reaching agreements with major banks about actions they planned to take to close their pay gaps.

At 10 companies, the New York City pension funds want to know "whether there exists a gender pay gap among the company's employees, and if so, the measures being taken (policies, programs, goals etc.) to eliminate any such pay disparities and to facilitate an environment that promotes opportunities for equal advancement for women." It asks for the report by December 2019.

Proxy Impact has asked **Analog Devices**, **CIGNA** and **Pfizer** to report "identifying whether a gender pay gap exists among its employees, and if so, outline the steps being taken to reduce the gap." It also uses the OECD pay gap definition.

Withdrawals—Arjuna has withdrawn following an agreement at **Citigroup**. Pax World Funds withdrew after **Citizens Financial** agreed to enhance its pay equity disclosures. It has asked the same things as Proxy Impact—about whether a pay gap exists and any corrective steps underway.

Proxy Impact withdrew after a significant commitment from **Pfizer**. The company will hire outside experts to assess in the first half of 2019 whether it has a global gender pay gap and a U.S. race pay gap, and the sources for any gaps, and report publicly on the results by no later than early 2020. The company says, "we believe we pay our US colleagues fairly and equitably," but it found a 14.5 percentage point pay gap in the U.K. and a 24.8 percentage point bonus gap.

SEC action—Two company challenges have emerged so far. **Bank of America** and **Wells Fargo** both are contending the resolution impermissibly consists of multiple proposals and relates to ordinary business by seeking to "micromanage" the company.

Gender, race and ethnicity: Zevin Asset Management is reprising its proposal to **TJX** that earned 26.2 percent last year. It asks for a report "on the Company's policies and goals to identify and reduce inequities in compensation due to gender, race, or ethnicity within its workforce. Gender-, race-, or ethnicity-based inequities are defined as the difference, expressed as a percentage, between the earnings of each demographic group in comparable roles."

Working Conditions

Mandatory arbitration and non-disclosure agreements: A new campaign from the New York City pension funds and comptroller Scott Stringer, joined by the federation of labor unions Change to Win, seeks an end to what they term "inequitable employment practices." They have asked **Alphabet**, **Amazon.com**, **CBRE Group**, **CBS**, **Citigroup**, **XPO Logistics** and **Yum Brands** to adopt a policy not to

> engage in any Inequitable Employment Practice. "Inequitable Employment Practices" are mandatory arbitration of employment-related claims, non-compete agreements with employees, agreements with other companies not to recruit one another's employees, and involuntary non-disclosure agreements ("NDAs") that employees are required to sign in connection with settlement of claims that any [company] employee engaged in unlawful discrimination or harassment.

In a December 14 press release, Stringer said a hostile working environment at Alphabet/Google and CBS has prompted "public lawsuits and mass employee walk-outs," with practices that have "wide-ranging impacts on the broader economy as well as workers' rights." The release said the targeted practices have been "pinpointed as drivers behind corporate cover-up of harassment and tools used to retaliate against whistleblowers." It said the consequences are damaging to workers, investors and the public.

Taking a similar approach, Clean Yield wants **McDonald's** to report "on the potential impact on the company of emerging state and federal policies described in this proposal to prevent harassment and discrimination against any EEO-protected classes of employees by restricting nondisclosure and compulsory arbitration agreements." The resolution takes note of a February 2018 letter from all 50 state attorneys general to Congress seeking an end to mandatory arbitration in sexual harassment cases, which said this would help end "the culture of silence that protects perpetrators at the cost of their victims." It also points to related bills in 16 states and laws in seven states, while noting that several large companies have ended the practice. Companies face legal risks, damage to employee morale and productivity and other problems because of secret handling of problems, which are more acute for African Americans and Hispanics, according to the proposal.

The proposals have come out of work from a group of 25 large institutional investors called the Human Capital Management Coalition (HCMC), sponsored by the UAW Retirees Medical Benefits Trust, which in 2017, petitioned the SEC to require more disclosure of information about a company's workforce and human resources policies. Members of HCMC include the Nathan Cummings Foundation (NCF), Trillium Asset Management, the Office of the NY State Comptroller, and the AFL-CIO Office of Investment, among others. NCF has not filed any proposals yet but is engaging at least ten companies in dialogue on this issue.

advocacyposition


"KEEP IT SECRET" POLICIES ENABLE CULTURES OF HARASSMENT AND DISCRIMINATION

LAURA CAMPOS
Director, Corporate & Political Accountability, Nathan Cummings Foundation

MEREDITH BENTON
Principal, Whistle Stop Capital

Thanks to Tarana Burke's Me Too movement, TIME'S UP and others, it's no longer possible to ignore the devastating impacts of discrimination, harassment and sexual assault in the workplace. In the business world, we've seen many alleged harassers removed from positions of power. But while Les Moonves and his ilk may be gone, it's not always clear whether companies are taking steps to eliminate not just the alleged harassers, but the policies and practices that helped shield them from accountability in the first place.

Take for example mandatory arbitration and non-disclosure (read: secrecy) agreements. Both practices can enable harassment and discrimination based on race, gender, ethnicity and other federally protected classes, to continue unseen by keeping complaints and any settlements confidential. This is so problematic that in 2018 attorneys general from all 50 states called for the end of mandatory arbitration and secrecy in sexual harassment cases, noting that, "Ending mandatory arbitration of sexual harassment claims would help to put a stop to the culture of silence that protects perpetrators at the cost of their victims."

Recognizing the risks these types of policies can present for companies and their employees, a number of investors are asking companies to eliminate their use. The New York City Pension Funds recently submitted several shareholder proposals calling for an end to "Inequitable Employment Practices," including mandatory arbitration and involuntary non-disclosure agreements. Other investors, including the Nathan Cummings Foundation, are asking companies to explicitly prohibit the use of non-disclosure agreements and mandatory arbitration in the context of employee harassment and discrimination claims.

There's good reason to do so. At companies like **21st Century Fox**, **Intel** and **Nike**, we've seen cultures that allowed those accused of harassment and discrimination to rise to the top, resulting in the unexpected and destabilizing loss of leadership. Of course, it's not just leadership that's impacted. A corporate culture that tolerates harassment risks physical and mental harm to employees, impacting productivity, absenteeism and employee turnover. Meanwhile, consumer facing companies put their brands at risk if it becomes known that their workplace policies protect those who harass and discriminate.

There are also legal risks attendant in relying on arbitration and non-disclosure agreements, which exist under a patchwork of state laws. Recognizing the damage that these policies can cause, at least seven states have limits on non-disclosure agreements in harassment settlements. California, for instance, bans confidentiality agreements in sexual harassment and discrimination cases.

For long-term investors, these "keep it secret" policies present real risks. They aren't just bad for business, they are, more importantly, bad for employees. When nearly half of African-Americans have faced race-based discrimination in the workplace and more than half of senior-level women have been sexually harassed during their careers, it is clear that these policies and practices are contributing to harmful work environments. We're hopeful that the companies we've engaged on these issues will follow the lead of **Microsoft** and others and discontinue arbitration and secrecy requirements when it comes to sexual harassment and discrimination claims, because to continue to ignore this pervasive problem is indefensible.

SEC action—**McDonald's** has challenged the proposal at the SEC on the grounds that Clean Yield was not specifically authorized by a company stockholder to file the proposal, invoking SEC Staff Legal Bulletin 14I from November 2017.

In its challenge, **Yum Brands** is contending the resolution concerns ordinary business because it deals with its management of the workforce and is not a significant social issue. The challenge also says the board executive committee examined the issue and found only 0.2 percent of its workforce has a non-compete agreement and that even if they exist, they relate narrowly to potentially forfeited incentive compensation. It says only a "small number" of employees submit to mandatory arbitration at Yum, but that arbitration is "widely accepted" as a means to keep legal costs lower. Further, it says Yum has not settled "a significant number" of sexual harassment claims—whether or not they might be subject to non-disclosure agreements, and that such agreements can prevent reputational damage if employees are subject to baseless claims. In any event, the company's sexual misconduct policy training addresses the concerns of the proposal, Yum says. Finally, the company says the proposal seeks to micromanage it.

Worker safety: The United Steelworkers have filed several proposals over the years about worker safety and this year the union is approaching **HollyFrontier**, asking it to "prepare a report to shareholders by the 2020 annual meeting…on process safety incidents, environmental violations, and worker fatigue risk management policies for the Company's refineries." The resolution will not go to a vote, however, because the SEC staff concurred with the company's point that it was filed too late.

DIVERSITY IN THE WORKPLACE

The number of shareholder proponents about diversity at work has dropped by half to 16, down from 31. Just one this year is about LGBTQ rights; the rest address discrimination on the basis of race, ethnicity and gender. All seek more disclosure and action to provide equal employment opportunities. In a switch from earlier, only two of those now public are repeats, but three more also have been filed at undisclosed companies. Proponents have withdrawn two so far after agreements, but more accords are likely. *(Also see proposals seeking executive pay links to diversity, p. 72.)*

Proponents continue to press a range of different sorts of companies to explain how they are ensuring employee gender, race and/or ethnicity does not affect equal access to employment, or prompt discrimination once on the job. The equal employment opportunity (EEO) campaign had surged in 2017 and 2018, but proponents this year seem to be focused on other topics, despite continued unacceptable workplace behavior and continuing fallout from the #MeToo movement.

(Proposals about greater gender pay equity are covered in the Decent Work section above, p. 41. The Sustainable Governance section (p. X60), describes 28 other proposals seeking greater board diversity—focused on women but increasingly minorities; both are deeply underrepresented on corporate boards.)

Diversity in the Workplace

Company	Proposal	Lead Filer	Status
EEO			
Analog Devices	Report on EEO and affirmative action	Trillium Asset Management	3/13/19
Bank of New York Mellon	Report on executive diversity	Trillium Asset Management	April
BorgWarner	Report on executive diversity	Trillium Asset Management	April
Carter's	Report on executive diversity	Trillium Asset Management	May
F5 Networks	Report on EEO and affirmative action	Trillium Asset Management	withdrawn
Fastenal	Report on EEO and affirmative action - SASB	As You Sow	April
Home Depot	Report on EEO and affirmative action	Benedictine Sisters of San Antonio, TX	May
Marathon Petroleum	Report on executive diversity	Trillium Asset Management	April
Newell Brands	Report on executive diversity	Trillium Asset Management	May
O'Reilly Automotive	Report on EEO and affirmative action - SASB	As You Sow	withdrawn
SEI Investments	Report on EEO and affirmative action	Walden Asset Management	May
Travelers	Report on EEO and affirmative action	Trillium Asset Management	May
LGBTQ Rights			
CorVel	Report on LGBT exclusion from anti-bias policy	Walden Asset Management	August

Gender, Race and Ethnicity

EEO data reporting: Trillium Asset Management requested that **Analog Devices**, **F5 Networks** and **Travelers** report to investors with:

1. A chart identifying employees according to gender and race in major EEOC-defined job categories, listing numbers or percentages in each category;
2. A description of policies/programs focused on increasing diversity in the workplace.

A similar proposal to **SEI Investments** asks that the report cover "the number of minority and female employees in job categories where they are underutilized, including middle and senior level manager positions."

The proposal is new at Analog. At F5, Trillium withdrew in 2017 after the company agreed to include diversity information in its forthcoming sustainability report, but the company did not so it refiled—then withdrew this year once the company fulfilled its commitment. At Travelers, the proposal received 36.3 percent in 2018 and 36.4 percent support in 2017.

Home Depot investors will consider a request for EEO reporting for the 18th year, in a record for resubmissions. The proposal routinely earns more than 20 percent support and in 2018 it received 48.3 percent. It asks for:

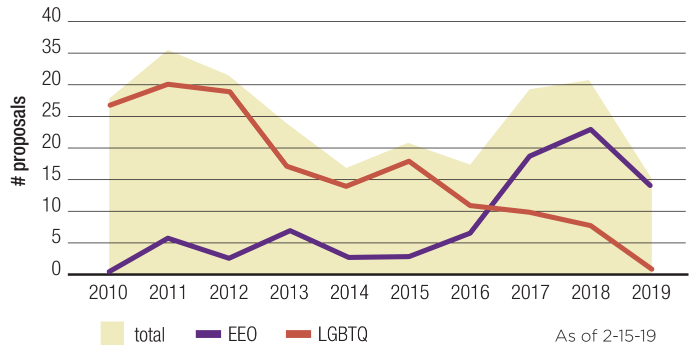
1. A chart identifying employees according to their gender and race in each of the nine major EEOC-defined job categories for the last three years, listing numbers or percentages in each category;
2. A summary description of any affirmative action policies and programs to improve performance, including job categories where women and minorities are underutilized;
3. A description of policies/programs oriented toward increasing diversity in the workplace.

The 2019 proposal notes the company paid a $100,000 disability rights settlement in 2018 and settled a fair credit reporting class action suit in 2016 for $3 million.

New SASB request: At **Fastenal** and **O'Reilly Automotive**, As You Sow is testing out the applicability of material risk reporting issues defined by the Sustainability Accounting Standards Board. It asks for "a report to shareholders by 180 days after the 2019 Annual Meeting…assessing the diversity of our company's workforce." The proposal suggests the requested report should include data on gender for the company's global operations and by job category in the U.S., adding race and ethnicity. It also seeks data on diversity-related legal costs and information on global diversity policies and programs. As You Sow withdrew at O'Reilly after a technical problem with the filing, but it remains pending at Fastenal.

Executive diversity: In another new proposal, Trillium Asset Management is encouraging companies to provide more reporting on their efforts to diversify upper echelons of management. It asks **Bank of New York Mellon**, **BorgWarner**, **Newell Brands** and **Marathon Petroleum** to provide an "assessment of the current state of its executive leadership team diversity and its plan to make the company's executive leadership team more diverse in terms of race, ethnicity, and gender." At Bank of New

Diversity at Work Proposals Since 2010



advocacyposition

DIVERSITY IN THE C-SUITE: WHY IT'S TIME TO SHINE A LIGHT ON EXECUTIVE LEADERSHIP

SUSAN BAKER
Vice President Shareholder Advocacy, Trillium Asset Management

BRIANNA MURPHY
Vice President Shareholder Advocacy, Trillium Asset Management

As a growing number of companies acknowledge the strengths of a truly diverse workforce, an area too often overlooked is executive team diversity.

The business case for workforce diversity is compelling and some companies have gone to great lengths to define a diversity and inclusion strategy. But progress is slow at the highest ranks of companies, arguably where the most important strategic and operational decisions are executed. Where workforce data is available, it often illustrates the slow progress in building racial and ethnic diversity into the C-suite. Too frequently the representation of non-white employees and women rapidly diminishes with rank.

A growing body of research indicates a positive relationship between firm value and the percentage of women and minorities in senior leadership roles. Diversity of gender, and also of race and ethnicity, is critical to a well-balanced leadership team. A McKinsey & Company report found that companies in the top quartile for gender or racial ethnicity are more likely to financially outperform national industry medians. Companies with greater ethnic diversity were 35 percent more likely to outperform.

Diversity in the boardroom has improved in recent years. Asset owners and institutional investors have played an important role in this success through dialogue and the proxy. However, expanding diversity in the C-Suite has not seen similar success. In 2018, the number of woman CEOs declined 25 percent, to just 24. The social and business cases for diversity are well known, but barriers to opportunity persist. Only 9 percent of top executive roles in the Russell 3000 are held by women. In addition, rather than holding executive roles that are stepping stones to the CEO position, women are more likely to be found in Human Resources Officer, General Counsel or Chief Administrative Officer roles. The absence of clear strategies to reach gender parity is also slowing progress. U.S. companies lag behind global peers in 18 developed European markets and Canada, according to ISS, in gender diversity policy disclosure for senior management positions.

To address this growing concern, Trillium filed executive leadership proposals at **BorgWarner** (co-filed with Impax Asset Management), **Carter's**, **BNY Mellon**, **Marathon Petroleum** and **Newell Brands**. We asked for an assessment of the diversity in senior leadership ranks and clear plans to expand diversity, inclusive of gender, race and ethnicity. **Citigroup**, **Symantec** and **BP** are leaders that already have set public goals to increase women in leadership, recognizing diversity and inclusion as major drivers for talent acquisition, retention and performance. It is time more companies set goals, measure and report progress, and hold executives accountable to improving diversity and inclusion in senior roles.

York Mellon and BorgWarner, it praises the companies for progress on board diversity but says they should work on opening up executive jobs to more diverse executives, where women and people of color are underrepresented. It offers similar praise to Marathon Petroleum for its diversity programs in general but also concludes more work is needed at the executive level.

At **Carter's**, Trillium's proposal is slightly different. It points out that the company's disclosures are not sufficient to enable investors to assess the effectiveness of its efforts to expand executive diversity. It then asks for a report on its executive Strategy Board and diversification plans.

LGBTQ Rights

The only proposal to address LGBTQ rights, a new formulation, asks **CorVel** to report "detailing the potential risks associated with omitting 'sexual orientation' and 'gender identity' from its written equal employment opportunity (EEO) policy." It points out the company current includes no explicit protections in its written EEO policy and contends this sends "mixed signals" to affected workers—who also face "inconsistent state policies, the absence of a federal law, and conflicting perspectives of federal entities. It notes, "In 2015, the Equal Employment Opportunity Commission (EEOC) advised that LGBT individuals were protected under 'sex' by Title VII of the Civil Rights Act. However, in June 2017, the Justice Department contested the EEOC's guidance in an Amicus Brief to a US Court of Appeals stating explicitly that 'Title VII does not reach discrimination based on sexual orientation.'" Shareholder resolutions historically helped persuade companies to adopt LGBTQ protections, with 30 resolutions filed as recently as 2012 and even more in earlier years. Despite assertions from some quarters that these protections may violate "religious liberties," leading U.S. companies remain on the public record strongly supporting diversity in all its forms.

(See Conservatives, p. 75, for a proposal that indirectly argues against Intel's policy supporting LGBTQ rights.)

ETHICAL FINANCE

Ethical Finance

Company	Proposal	Lead Filer	Status
Bank of America	Report on overdraft policy	Trillium Asset Management	April
Gilead Sciences	Report on tax cut windfall	Trillium Asset Management	May
JPMorgan Chase	Report on overdraft policy	Trillium Asset Management	May
Wells Fargo	Report on banking ethics and oversight	Harrington Investments	April

Overdraft fees: Trillium Asset Management has a new resolution at **Bank of America** and **JPMorgan Chase**, asking each to report "evaluating overdraft policies and practices and the impacts they have on customers." The resolution is concerned about the impact overdraft fees have on the poor. A similar proposal last went to a vote in 2010 and earned 23.6 percent support at BB&T. The proposal notes $35 overdraft fees that provided $1.6 billion to Bank of America in 2017 (2.2 percent of its total income and a third of its non-interest income). At JPMorgan Chase, the fee is $34 per check and it produced $1.8 billion in fees (2 percent of total income and 39 percent of service charge income). The proposal notes the Center for Responsible Lending found last year that the biggest U.S. banks collected near $11.5 billion in overdraft fees in 2017, with most of the fees incurred by low-income, single, non-white renters, and that a high volume of overdraft fees come from those heavily reliant on Social Security Income. The resolution argues that the fees charged per check appear to be unrelated to the actual costs incurred, and presents reputational risks to the banks, as well as litigation risks that have already prompted settlements in the tens of millions.

Tax windfall: Trillium takes up another issue at **Gilead Sciences**. It wants a report on how the company used extra income from last year's tax reform, seeking information on "how the company plans to allocate tax savings as a result of the Tax Cuts and Jobs Act." This resolution points out the new law cut the corporate tax rate from 35 percent to 21 percent and is estimated to provide the largest U.S. companies with a tax windfall of $150 billion. It reasons that the bill aimed to "boost economic growth and companies long-term investment in the American economy," but says it remains unclear how Gilead has invested the money. Quoting BlackRock CEO Larry Fink's call for more transparency to investors about long-term company strategies, it says companies are faced with a "particularly critical moment" for disclosure. While Gilead might "invest in workers, benefits, jobs, communities, capital investments, R&D, and make acquisitions," Trillium says, what it actually will do remains unclear. In contrast, it notes that industry peer Amgen says it will open a new biologics plant and create 300 new jobs, while other firms also have detailed plans for "workforce development, infrastructure enhancement, and corporate giving." The resolution says widening economic inequality means scrutiny of corporate use of the tax windfall has intensified. Gilead has challenged the

advocacyposition

MAJORITY SUPPORT FOR DISCLOSURE OF OPIOID FINANCIAL RISK

DONNA MEYER, PH.D.
Director, Shareholder Advocacy,
Mercy Investment Services

Since mid-2017, Investors for Opioid Accountability (IOA), a coalition founded by Mercy Investment Services and the UAW Retirees Medical Benefits Trust, has become the leading shareholder force in the fight against the opioid epidemic ravaging the United States. It now represents 54 investors with more than $3.5 trillion in assets under management. In 2017, more than 70,000 Americans died from drug overdoses, the most ever in a single year. Of the 700,000 American deaths from drug overdoses since 1999, more than two-thirds were from opioids and many involved prescription opioids.

To address this epidemic that is devastating families and communities, in addition to stressing our healthcare system, IOA leverages investor power at pharmaceutical manufacturers and distributors; IOA has expanded its work to include the retailers **CVS**, **Rite Aid** and **Walgreens Boots Alliance** (Walgreens).

Given more than 1,000 claimants in multidistrict litigation consolidated in Ohio—as well as litigation at the state and local levels, the IOA is concerned about the financial and reputational risks posed by companies' opioid business. Litigation briefs and company engagements have shaped the IOA's views on improving corporate governance practices to strengthen corporate culture, board accountability, compensation incentives and risk mitigation. The IOA assesses each company and identifies practices that can strengthen board oversight. Resolutions address these best practices and may include asking for an independent chair, board oversight of risk, clawback of executive pay after misconduct, excluding legal costs from compensation metrics and/or oversight and disclosure of corporate political spending and lobbying.

Investors are giving significant support to opioid-related resolutions. A majority of shareholders have voted FOR board oversight resolutions at three companies: in 2018, 62.3 percent at Depomed (now **Assertio Therapeutics**) and 61.4 percent at **Rite Aid**; in January 2019, 61 percent at **Walgreens**. Another 41 percent voted for the resolution at **AmerisourceBergen** last year. This success is buoyed by recommendations FOR from proxy advisors ISS and Glass Lewis.

Perhaps more importantly, the IOA has achieved many settlements. Ten of the 13 companies we asked to produce a board risk report have either published a report online or are finishing their reports. Only two board risk report requests remain on proxy ballots for 2019. Similarly, 12 of the 15 companies engaged about misconduct pay clawbacks now have robust policies; we expect the remaining three to be on proxy ballots.

Even after these successes, the IOA remains concerned with and committed to bringing solutions to this epidemic. IOA continues to engage 13 companies on corporate governance reforms that help assure investors companies are monitoring opioid-related reputational and financial risks. The resounding shareholder support at least partially reflects public concern; many people recognize or are affected by opioids in their communities, making most companies anxious to engage with shareholders. In the coming months, IOA will also monitor the progress of the companies it has engaged and evaluate other potential engagements related to stemming the opioid epidemic.

resolution at the SEC, arguing the proponent did not prove stock ownership and also that it concerns ordinary business. (A broader proposal about sustainability reporting, prompted by tobacco concerns, was omitted at **Walgreens**; see p. 71.)

Banking ethics: Harrington Investments wants **Wells Fargo** to produce a report by October "regarding options for the board of directors to amend our Company's governance documents to enhance fiduciary oversight of matters relating to customer service and satisfaction." The resolution provides a long list of the bank's recent track record opening fake accounts, selling redundant auto insurance and other malfeasance that has resulted in fines and enforcement action. It says the report would help restore its reputation and help "fix a crippled business model." The bank has challenged the proposal at the SEC, arguing it concerns ordinary business and is too vague. Faith-based proponents withdrew a 2018 banking ethics proposal after the bank agreed to publish a review of its business standards and ethics practices, and related risk management. That resolution was a revised version of a 2017 proposal that earned 21.9 percent support. In late January, Wells Fargo issued a new Business Standards Report that ICCR heralded as a response to its proposals.

HEALTH

Resolutions about health issues relate to pharmaceutical use and pricing. Additional resolutions raise concerns about tobacco and healthy food. *(Related proposals that connect these issues to board oversight and executive pay are covered in the Sustainable Governance section of this report.)*

Opioids

Deaths and costs from the burgeoning opioid epidemic continue to spiral upward. Investors, including state treasurers in states grappling with related budget impacts, are using a corporate governance lens to call for more transparency and accountability from companies connected to the crisis. The clear business risks apparent in lawsuits, legislation and reputational damage meant the resolutions earned high levels of support in 2018, with a majority vote of 62.3 perent at leading opioid maker **Depomed** (now Assertio Therapeutics) and another majority vote of 61.4 percent at drug store chain **Rite Aid** in October.

This year, proponents filed three resolutions that directly address the issue. Mercy Investments has withdrawn a resubmitted proposal to **AmerisourceBergen** that earned 41.2 precent in 2018. The company has agreed to provide the requested report. The resolution asked for information

> on the governance measures ABC has implemented since 2012 to more effectively monitor and manage financial and reputational risks related to the opioid crisis in the United States (U.S.), given ABC's distribution of opioid medications, including whether ABC has assigned responsibility for such monitoring to the Board or one or Board committee(s), revised senior executive compensation metrics or policies, adopted or changed mechanisms for obtaining input from stakeholders, or altered policies or processes regarding company political activities.

A similar proposal at **Insys Therapeutics** is pending, asking if it "has assigned responsibility for [monitoring opioid risks] to the Board or one or more Board committees, revised senior executive compensation metrics or policies, adopted or changed mechanisms for obtaining input from stakeholders, or altered policies or processes regarding company lobbying activities."

In January, investors at **Walgreens Boots Alliance**, which merged with Rite Aid in 2018, gave 60.5 percent to a proposal that asked about

> corporate governance changes Walgreens has implemented since 2012 to more effectively monitor and manage financial and reputational risks related to the opioid crisis, including whether and how the Board oversees Walgreens' opioid-related programs and AmerisourceBergen's opioid-related risks, whether the crisis has been designated (or is encompassed within) a material corporate social responsibility (CSR) issue and whether and how Walgreens has changed senior executive incentive compensation arrangements.

Walgreens is one of the biggest U.S. purveyors of prescription medication and it also owns 26 percent of AmerisourceBergen, one of the country's largest drug distributors.

SEC action—The SEC staff had rejected Walgreens' contention that the proposal relates to ordinary business.

(See p. 74 for two additional resolutions about legal costs connected to opioid litigation and executive pay.)

Pharmaceutical Pricing

ICCR members have long been concerned about the rising costs of prescription drugs. Last year, they hit upon a proposal about pricing risks and connections to executive pay incentives, an approach they are using again in 2019 *(see p. 72 for information on nine proposals)*. Another proposal, however, was filed at **Johnson & Johnson** by the UAW Retirees Medical Benefits Trust. It focused on barriers to generic drug competition and the UAW Trust withdrew after the company agreed to further disclosure on the issue. The resolution had asked for a report by December

> assessing the reputational and financial risks to the Company from rising pressure to reduce high prescription drug prices in the United States by removing barriers to generic competition. The report should address, but need not be limited to, the Food and Drug Administration's ("FDA's") publication of a list of branded drugs about which the FDA has received inquiries from generic manufacturers unable to obtain branded drug samples, regulatory and legislative efforts to increase generic manufacturers' access to those samples and measures to allow generic manufacturers to create their own Risk Evaluation and Mitigation Strategy programs.

The list referenced was released in May by the FDA in a report that included 50 drugs where brand name makers denied providing samples needed to make the generic versions, and a division of J&J had the second-highest number of entries on the list. The resolution also discussed high prescription drug costs for Medicare and Medicaid and new federal legislation that allows generic companies to sue branded drug companies if they deny access to samples.

Food

Coca-Cola has challenged a proposal from Harrington Investments that asks for a report by November

> on Sugar and Public Health, with support from a group of independent and nationally recognized scientists and scholars providing critical feedback on our Company's sugar products marketed to consumers, especially those Coke products targeted to children and young consumers…[with] an assessment of risks to the company's finances and reputation associated with changing scientific understanding of the role of sugar in disease causation.

The company says it is moot given current company reporting and related to ordinary business since it is too detailed, but the SEC has yet to respond.

Tobacco

Just two resolutions on tobacco have been filed for 2019. The Sisters of St. Francis of Philadelphia have resubmitted a proposal to **Altria** that earned 4.1 percent last year. It asks the company to "take steps to preserve the health of its tobacco-using customers by making available to them information on the nicotine levels for each of our cigarette brands and begin reducing nicotine levels in our brands to a less addictive level."

Trinity Health withdrew a second proposal, at **Phillip Morris International**, which asked for a "review [of] worldwide corporate adherence to Philip Morris's own policies aimed at discouraging smoking among young people, and report the results of that review to shareholders by November 2019. The company agreed to review its policies aimed at discouraging young people from smoking. The resolution had noted social media campaigns seen by youth.

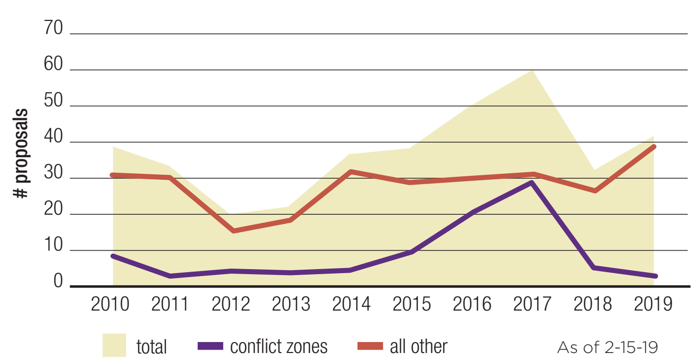
Health

Company	Proposal	Lead Filer	Status
Opiod Epidemic and Drug Pricing			
AmerisourceBergen	Report on opioid crisis	Mercy Investment Services	withdrawn
Insys Therapeutics	Report on opioid crisis	New York State Common Retirement Fund	May
Johnson & Johnson	Report on pharmaceutical pricing	UAW Retiree Medical Benefits Trust	April
Walgreens Boots Alliance	Report on opioid crisis	Mercy Investment Services	60.5%
Tobacco			
Altria	Report on/reduce nicotine levels	Srs. of St. Francis of Philadelphia	May
Philip Morris International	Report on adherence to policy limiting youth marketing	Trinity Health	May
Food			
Coca-Cola	Report on sugary products and public health	Harrington Investments	April

HUMAN RIGHTS

After a dip in 2018, shareholder proponents have stepped up filing resolutions on human rights this year. They include a familiar set of proposals about reporting on human rights risks and how companies are implementing current policies. Only five directly address operations in contested territory—a dominant issue three years ago—but five ask for new types of disclosure about immigrants and the penal system, and three other new proposals seek transparency about how tech and communications firms try to prevent online child sexual exploitation. Another new proposal asks about **Alphabet/Google's** China policies, Saudi Arabia' human rights violations feature at **Booz Allen Hamilton** and Oxfam is looking for food-specific assessments of human rights impacts at **Amazon.com**. Another new resolution about products connected to hate speech is before Amazon.com, as well.

Human Rights Proposals Since 2010



Many of the recipient companies have not seen human rights proposals before, and many issues are new, tied to issues of intense public debate.

In all, there are 44 proposals on human rights, with 33 now pending and nine withdrawn so far. At least six await the outcome of pending challenges at the SEC, and more challenges are likely outstanding given the backup at the SEC after the government shutdown.

Policy Risk & Impact Assessments

Risk assessments: Proponents are continuing a risk-based approach, seeking reports about how companies assess their supply chains and operations for red flags. At six—**Amphenol**, **Corning**, **Hanesbrands**, **Macy's**, **Texas Instruments** and **TJX**—the request is for a report on each firm's "process for identifying and analyzing potential and actual human rights risks of its operations and supply chain." The resolution suggests that the company consider what principles should frame the assessment, how often it should occur, what metrics should be used to track and measure force labor risk and how the assessment results could be incorporated into company decisions.

The resolutions point out specific concerns at companies in independent assessments:

- A 2018 Know the Chain report on forced labor gave scores of 9 out of 100 for Amphenol and 6 for Corning,

- The 2018 Corporate Human Rights Benchmark report gave a score of 4.1 out of 100 to Macy's, 13.8 to TJX and 38 to Texas Instruments;
- A low score for Hanesbrands from the 2018 Fashion Transparency Index, Know the Chain and the Corporate Human Rights Benchmark.

A resolution from Oxfam America at **Pilgrim's Pride** goes a step further and seeks a report on the company's "human rights due diligence process to assess, identify, prevent and mitigate actual and potential adverse human rights impacts." The proposal details problems with a wide range of worker's rights in the meat industry and related environmental concerns, as well as what it says is public resistance to company expansions because of community impacts, alongside discrimination claims and environmental and labor fines.

At **Wendy's** and **KraftHeinz** the resolution is the same, but includes the suggested report elements in the resolved clause; it adds at Wendy's that it should "cover all aspects of Wendy's business including its own operations, franchisees, cooperatives, and supply chains."

SEC action—**Hanesbrands** challenged the proposal at the SEC, arguing that the resolution is moot and concerns ordinary business. Texas Instruments also says it is moot given its current policies and disclosures.

Withdrawal—NYSCRF has withdrawn an additional proposal also seeking a human rights risk assessment at **Dunkin' Brands** after reaching an agreement. Amalgamated also withdrew at Hanesbrands following the challenge.

Food and human rights: Oxfam America has another food-related resolution, at **Amazon.com**, which wants the impact assessment to be about "at least three food products Amazon sells that present a high risk of adverse human rights impacts," and follows the same identify-assess-remedy approach as the other proposals.

Investors gave 5.5 percent support to a proposal at **Tyson Foods** on February 7. Tyson is a family owned company with two classes of stock, which results in generally low votes. The American Baptist Church asked for a report on Tyson's "human rights due diligence process to assess, identify, prevent and mitigate actual and potential human rights impacts." The proponent felt the company's current policies and level of disclosure do not provide adequate information on its human-rights related risks, some of which have short circuited its expansion plans because of environmental concerns. Tyson recently signed on to the United Nations Global Compact and must report on its progress and commitment to the code's 10 voluntary principles.

China: Azzad Asset Management has a new proposal at **Alphabet**, seeking a "Human Rights Impact Assessment…by no later than October 30, 2019, examining the actual and potential impacts of censored Google search in China." The resolution says subsidiary Google is developing a search engine called "Dragonfly" that will "blacklist websites and search terms about human rights, democracy, religion, and peaceful protest." Azzad says the project calls into question the company's human rights commitments.

Adopt and strengthen policies: Four proposals contend companies must have stronger policies. At the consultancy **Booz Allen Hamilton**, Azzad Asset Management says the firm should

> develop and adopt a comprehensive human rights policy that includes an explicit commitment to support and uphold the principles and values contained in the United Nations' Guiding Principles on Business and Human Rights, to be published no later than six months following the 2019 annual general meeting. The report shall be presented to relevant parties involved in contract approval and posted on the company website.

Azzad points out that Booz Allen operates in Saudi Arabia, which

> has been repeatedly implicated in violations of basic human rights; among these are the 2018 assassination of Washington Post columnist Jamal Khashoggi and the military assault and blockade of Yemen. Yet, our company and its competitors have reportedly "played critical roles in [Saudi] Prince Mohammed [bin Salman]'s drive to consolidate power." ("Consulting Firms Keep Lucrative Saudi Alliance, Shaping Crown Prince's Vision," The New York Times, November 4, 2018.).

It says adopting a policy "would enable [the company] to effectively manage and avoid allegations of abetting such abuses."

Fiduciary duty connection—Harrington Investments has resubmitted a proposal seen last year at **PayPal** for the first time asking it again to "modify its formal government document [to] articulate the fiduciary duties of Board and management to ensure due diligence on Human and Indigenous Peoples' Rights." It delineates a range of actions taken by the company that touch on human rights issues—from policies that protect LBGTQ employees, to terminating service for conspiracy theorist Alex Jones's Infowars website as a violation of his terms of service, to "not denying financial services to Israeli settlers in the occupied West Bank and Gaza Strip." It posits an explicit fiduciary duty tie is needed because current policies are non-binding and have "limited legal teeth or enforcement mechanisms and therefore minimal assurance of respect

or protection for global Human Rights." The proposal earned 5.9 percent last year and must reach 6 percent to qualify for resubmission.

New policy—Mercy Investments has two more proposals. It asked **Southwest Airlines** to adopt or create "a comprehensive policy articulating our company's respect for and commitment to human rights." Mercy said the company has "no specific public commitment to respect Human Rights in line with" the UN Guiding Principles on Human Rights, and yet as "one of the world's largest low-cost airline carriers [it] has significant leverage for identifying and addressing human rights risks in its operations and in its supply chain." Mercy withdrew after the company agreed to study the Every Child Against Trafficking initiative and review and consolidate its human rights statements on its website.

At **Sturm**, **Ruger**, Mercy's resolution is the same, but adds that the policy (as with the other proposals noted above) should include "description of proposed due diligence processes to assess, identify, prevent and mitigate actual and potential human rights impacts." It reasons, "Given the lethality of gun manufacturers' products and the potential for their misuse, the risk of adverse human rights impacts is especially elevated for all gun manufacturers, including Sturm, Ruger." In 2018, a proposal at the company about gun safety earned unprecedented 68.8 percent support.

advocacyposition

SHAREHOLDER MAJORITY CALLS ON GUN MAKERS TO HELP END GUN VIOLENCE

COLLEEN SCANLON, RN, JD
Senior Vice President, Executive Vice President & Chief Advocacy Officer, CommonSpirit Health (formerly Catholic Health Initiatives)

LAURA KRAUSA MNM
System Director, Advocacy, Catholic Health Initiatives

Gun-related deaths in the U.S. are at a 20-year high. In fact, data from the Centers for Disease Control and Prevention (CDC) show the number of deaths from gunfire to be nearly 40,000 in 2017 — the equivalent of 12 deaths per 100,000, and the highest rate since 1996.

About 43 percent of U.S. households own firearms, and it is estimated there are more than 390 million guns in a country with a population of approximately 327 million. *More guns than people* – that's an astonishing statistic.

Our country has witnessed more than 1,600 shootings in the past six years and has watched the suicide rate skyrocket, with 60 percent of gun-related deaths in 2017 attributed to choices made all too easily by the swift lethality of a firearm, CDC statistics affirm.

This is a growing and unacceptable epidemic whose causes are numerous and complicated. The responsibility to address the issue of gun violence is shared among many stakeholders – not the least of which are gun manufacturers and distributors. The increase in recent shootings has created heightened scrutiny from the investment community, prompting calls for both the divestment of stocks in gun manufacturers to tighter governance controls. Since the February 2018 shooting at a high school in Parkland, Fla., the voices of young people advocating for change has become impossible to ignore.

In 2018, resolutions were filed with Sturm, Ruger & Co. (Ruger), American Outdoor Brands (AOBC), and Dicks Sporting Goods (Dick's). The resolutions with Ruger and AOBC requested reports on their activities related to gun safety and the mitigation of harm associated with their products, including evidence of monitoring of violent events associated with their products; current efforts to research and produce safer guns and gun products; and assessment of the corporate reputational and financial risks related to gun violence.

The Ruger and AOBC resolutions received majority shareholder votes — almost 70 percent at Ruger and more than 52 percent at AOBC. Yet when Ruger and AOBC released their reports in February 2019, both companies reiterated their view that investments in gun safety innovations were not worth pursuing, in part due to low demand from their current customer base.

The resolution with Dick's, a request for a report on the Sandy Hook Principles, was withdrawn after an extremely productive dialogue. In fact, Dick's took even greater steps to be a part of the solution, including banning the sale of assault weapons in its stores and assigning a lobbyist to advocate for sensible gun legislation on a federal level.

This year, a resolution requesting a proxy access bylaw was filed with Ruger in an attempt to strengthen board competency, a critical need considering the business line. Another resolution requesting the development of a human-rights policy was also filed.

Last year's high votes show that many shareholders believe the epidemic of violence must be addressed and that corporations with business ties to the gun industry must consider their role in creating solutions. There is a growing intolerance for passivity on gun violence — now is the right time for companies to do the right thing.

Human Rights

Company	Proposal	Lead Filer	Status
Policy Risk & Impact Assessments			
Alphabet	Report on human rights impact assessment for China	Azzad Asset Management	June
Amazon.com	Report on human rights food impact	Oxfam America	May
Amphenol	Report on human rights risk assessment	Amalgamated Bank	May
Booz Allen Hamilton	Adopt/expand human rights policy	Azzad Asset Management	July
Corning	Report on human rights risk assessment	Amalgamated Bank	April
Dunkin' Brands Group	Report on human rights risk assessment	New York State Common Retirement Fund	withdrawn
Hanesbrands	Report on human rights risk assessment	Amalgamated Bank	withdrawn
Kraft Heinz	Report on human rights risk assessment	Midwest Capuchins	April
Macy's	Report on human rights risk assessment	Priests of the Sacred Heart	May
Northrop Grumman	Report on human rights policy implementation	Srs. of St. Dominic of Caldwell	May
PayPal	Adopt/expand human rights policy	Harrington Investments	May
Pilgrim's Pride	Report on human rights risk assessment	Oxfam America	May
Southwest Airlines	Adopt/expand human rights policy	Mercy Investment Services	withdrawn
Sturm, Ruger	Adopt/expand human rights policy	Mercy Investment Services	May
Texas Instruments	Report on human rights risk assessment	Amalgamated Bank	April
TJX	Report on human rights risk assessment	Priests of the Sacred Heart	June
Tyson Foods	Report on human rights impacts	American Baptist Church	5.5%
Wendy's	Report on human rights risk assessment	Midwest Capuchins	June
Conflict Zones			
Booking Holdings	Report on conflict zone operations	Wespath Inv. Mgt	June
Caterpillar	Report on conflict zone operations	Episcopal Church	June
Chevron	Report on anti-genocide policy	Azzad Asset Management	May
Franklin Resources	End investments in genocide-connected companies	William Rosenfeld	9.9%
TripAdvisor	Report on conflict zone operations	Episcopal Church	June
Immigration & the Penal System			
Bank of America	Report on migrants & human rights risk assessment	SEIU Master Trust	withdrawn
CoreCivic	Adopt immigrant detention policy	Alex Friedmann	May
GEO Group	Report on inmate/detainee policy	Jesuit Conference	April
GEO Group	Adopt immigrant detention policy	Alex Friedmann	April
Wells Fargo	Report on migrants & human rights risk assessment	SEIU Master Trust	withdrawn
Prison Labor			
Costco Wholesale	Report on supply chain prison labor	NorthStar Asset Management	28.7%
Home Depot	Report on supply chain prison labor	NorthStar Asset Management	May
International Business Machines	Report on supply chain prison labor	NorthStar Asset Management	withdrawn
TJX	Report on supply chain prison labor	NorthStar Asset Management	June
Walmart	Adopt supply chain prison labor policy	Nathan Cummings Fndn	May
Trafficking			
Apple	Report on child sexual exploitation and products/services	Christian Brothers Investment Services	withdrawn
Hub Group	Report on human trafficking policies/practices	Presbyterian Church (USA)	withdrawn
Monster Beverage	Report on human trafficking policies/practices	As You Sow	June
Sprint	Report on child sexual exploitation and products/services	Christian Brothers Investment Services	June
Verizon Communications	Report on child sexual exploitation and products/services	Christian Brothers Investment Services	May
Right to Water			
American Water Works	Report on human right to water	NorthStar Asset Management	withdrawn
Chevron	Report on human right to water	Srs. of St. Francis of Phila.	May
Hate Speech			
Amazon.com	Report on sales of offensive products	Nathan Cummings Fndn	May

Conflict Zones

While many of the human rights proposals implicitly address problematic corporate behavior in dicey situations experiencing civil unrest, just four in 2019 now directly take on these challenges.

Genocide: A **Chevron**, Azzad Asset Management has returned for the third year in a row with a resolution that earned 7.2 percent in 2018 and 5.7 percent in 2017 (it must receive 10 percent or more to qualify for resubmission this year). The resolution notes the plight of the Rohingya people in Burma and the company's business there as well as in other countries with serious human rights violations. It asks for a report within six months of the annual meeting, "evaluating the feasibility of adopting a policy of not doing business with governments that are complicit in genocide and/or crimes against humanity." Chevron challenged the proposal last year at the SEC, arguing it was too vague because shareholders would not be able to determine where genocide or crimes against humanity occur, but the SEC disagreed.

This year, investors at **Franklin Resources** again were faced with a proposal from William Rosenfeld, who works with Investors Against Genocide. The proposal asks "that the Board institute transparent procedures to avoid holding or recommending investments in companies that, in management's judgment, substantially contribute to genocide or crimes against humanity, the most egregious violations of human rights." A similar resolution in 2013 and 2014 received 9.3 percent and 5.9 percent support, respectively—missing the 6 percent threshold required for another resubmission until three years pass. From 2011 to 2015, Investors Against Genocide filed nine similar proposals at **JPMorgan Chase**, Franklin Resources, **BlackRock** and **Voya Financial**, with support levels ranging from 3.4 percent (BlackRock in 2015) to 10.7 percent (JPMorgan Chase in 2012). This proposal at Franklin Resources marks the first such filing since 2015 and the vote on Feb. 12 was 9.9 percent.

Three proposals seek disclosure about conflict zones. The Episcopal Church says **Caterpillar** should "assess and report to shareholders…on the company's approach to mitigating the risks associated with business activities in conflict-affected areas other than areas already addressed through its conflict minerals policy. The company has long faced controversy about the use by various governments of specially armored construction equipment—including in Palestinian territory but also in Sudan.

The Church notes **TripAdvisor** carries listings for the Democratic Republic of Congo, Iraq, Myanmar and the Occupied Territories of the Palestinians. The proposal is new and in its resolved clause asks the company to "assess and report to shareholders, at reasonable expense and excluding proprietary information, on the company's policies and procedures to address the human rights-related risks associated with business activities in conflict-affected areas, including occupied territories." It says the report should explain how the company makes risk decisions about operations in such zones, how it monitors enforcement of its human rights policy and if its policy should be expanded.

Wespath Investment Management has filed a proposal at **Booking Holdings** (formerly Priceline) nearly identical to the one at TripAdvisor. The resolved clause is the same and it notes that TripAdvisor has listings for the Democratic Republic of Congo, Iraq, Myanmar, and the Occupied Territories of the Palestinians.

Immigration and the Penal System

The intense public debate over immigration and how best to address security along the long U.S. border with Mexico—which prompted the longest government shutdown in U.S. history early this year—is making itself known in proxy season with five proposals. Two have been withdrawn after agreements and challenges to the other three proposals are still pending at the SEC.

Lending to prison companies: The SEIU Master Trust has withdrawn a proposal at **Bank of America** and **Wells Fargo** that asked for a report by year's end

> on how BAC is identifying and addressing human rights risks to BAC related to the Trump Administration's aggressive immigration enforcement policy, which aims to prosecute all persons who enter or attempt to enter the United States (U.S.), including the detention without parole of asylum-seekers and the separation of minor children from their parents who are accused of entering the U.S. illegally.

The proposal noted both banks lend to private prison companies, which are involved in immigrant detention. This is a new proposal in 2019. SEIU withdrew after Wells Fargo agreed to add language about private prisons to its Business Standards Report. Bank of America also reached an agreement with SEIU but the details are not yet available.

Family separation: Inmate rights advocate Alex Friedman also is raising concerns about the detention of immigrant families. He has a detailed proposal asking **CoreCivic** and **GEO Group** to

> adopt the following policy, to be implemented no later than December 31, 2019:
>
> 1. [The company] shall adopt a policy of not accepting immigrant detainee children (persons under the age of 18), who have been separated from their parent or parents by any U.S. government entity, for housing at any facility owned or operated by the Company.

2. [The company] shall adopt a policy of not accepting adult immigrant detainees (persons over the age of 18), who have been separated from their child or children by any U.S. government entity, for housing at any facility owned or operated by the Company.
3. If [the company] houses at any of its facilities any immigrant detainee children or adults described in sections 1 or 2 above at the time the policies set forth in sections 1 and 2 are implemented, the Company shall: a) immediately move to modify all such contracts to comply with the above policies or, if such modification is not possible within a six- month period, seek to withdraw from or terminate such contracts as soon as possible, including invoking any early termination options or clauses in such contracts, and b) diligently work to make arrangements to safely house such immigrant detainees that do not involve housing them at any of the Company's facilities.

Both companies have lodged challenges at the SEC. CoreCivic argues it can be excluded because it concerns ordinary business by dint of micromanagement and since it does not address a significant policy issue. The company also says that it cannot implement the proposal, that it is too vague and that it is moot. GEO Group is making the same arguments. The proposal is the first of its kind, but Friedman has filed a number of proposals in the past on prisoner concerns at both companies.

Inmate and detainee rights: The Jesuit Conference has a second proposal at **GEO**, which notes serious allegations from October 2018 at a California migrant detainee facility run by GEO. It asks for an annual report starting in September

on how it implements the portion of the Policy that addresses "Respect for Our Inmates and Detainees," including:

1. How GEO ensures that its employees are aware of, and know how to apply, the company's commitment to inmate/detainee human rights;
2. Metrics used to assess human rights performance, including any process for independent outside verification of such metrics; and
3. How GEO remedies shortcomings in human rights performance.

The company has challenged the proposal, saying its implementation would violate the law, that it is too vague and that it concerns ordinary business by seeking to micromanage the company.

advocacyposition

COMPANIES ENGAGED IN IMMIGRATION DETENTION AND FAMILY SEPARATION FACE HUMAN RIGHTS RISKS

NADIRA NARINE
Senior Program Director, Interfaith Center on Corporate Responsibility (ICCR)

The current "zero-tolerance" U.S. immigration policy has become one of the most high-profile and contentious human rights issues we face. The Trump Administration's more aggressive approach to immigration restrictions pushed arrests by Immigration and Customs Enforcement (ICE) up by 11 percent in 2018. The resulting indefinite detention, especially the separation of minor immigrant children from their parents, has violated human and civil rights.

During the 2019 proxy season, ICCR members are engaging companies to hold different sectors accountable for human rights problems they may be causing directly, or those to which they may be linked through federal government contracts with ICE and Customs and Border Protection (CBP).

Any company connected to immigration enforcement faces a panoply of risks—violations of human rights, including children's rights, due process, equal protection, freedom from persecution and torture, and the rights of asylum seekers. These are significant legal and reputational risks that threaten brands and may cause workplace unrest when employees strongly oppose these practices.

The UN Guiding Principles on Business and Human Rights (UNGPs) articulate a corporate responsibility to respect human rights and provide victims a remedy for any corporate-related abuses. Problems connected to "zero tolerance" immigration fall under the UNGPs and require increased due diligence.

For-profit private prisons that detain immigrants, including families with children, present the most direct human rights challenge. The Department of Homeland Security's Office of Inspector General in October 2018 reported "serious issues relating to safety, detainee rights, and medical care" at a **GEO** immigration detention center in Adelanto, California, for instance, prompting one of this year's shareholder proposals.

Technology companies with federal immigration agency contracts provide a range of hardware and other infrastructure services connected to UNGP-defined risks, through cloud services, biometric and facial recognition technology, recruitment, case management and network operations management. A resolution at **Amazon.com** asks the company not to provide its facial recognition technology to government agencies unless it can ensure no civil and human rights violations will occur. ICCR members are holding dialogues with **Microsoft** and **Accenture** on similar themes.

Defense contractor Northrop Grumman has a $95 million contract with the Department of Homeland Security's (DHS) Office of Biometric Identity Management to develop technology for the Homeland Advanced Recognition Technology (HART) database. HART will amplify government surveillance, harming privacy and free speech rights. Additional concerns exist about algorithms that have inherent racial bias.

Financial institutions including **Wells Fargo**, **JPMorgan Chase** and **Bank of America** are under fire for lending to private prison companies that contract with ICE and benefit from more aggressive immigration enforcement.

The Investor Alliance for Human Rights, an ICCR initiative, published a *Guidance on Corporate Human Rights Due Diligence Related to Immigration Detention and Family Separation* that provides an overview of the human rights risks associated with family separation and indefinite immigrant detention and includes guidance to help companies identify, assess and address those risks.

expertinsight

THE GROWING REGULATORY RISK OF MODERN SLAVERY IN GLOBAL SUPPLY CHAINS

CHLOÉ BAILEY
Program Officer, The Freedom Fund

Globally, it is estimated that over 40 million people live in situations of modern slavery. Approximately 16 million people are in forced labor in the private economy, in mines, factories and fields harvesting raw materials and manufacturing products for global supply chains. Over the past few years, revelations of modern slavery conditions have been traced to the supply chains of major corporations, from smartphones produced with forced child labor in the DRC, to seafood caught by trafficked migrant workers in Thailand.

Increased awareness and concern among consumers, investors and policymakers about the prevalence of modern slavery in supply chains has led some states to introduce legislation to regulate corporate action. Following passage of the California Transparency in Supply Chains Act in 2011, lawmakers passed similar modern slavery disclosure requirements in the U.K. in 2015, in France in 2017 and in Australia last year. Large companies operating in these countries now have a legal obligation to publish an annual statement on their efforts to identify and eliminate modern slavery from their business operations and supply chains.

So far, transparency in supply chains legislation has used a deliberately light-touch approach to enforcement, premised on encouraging a race to the top in corporate compliance. However, analysis of modern slavery reporting in the U.K. highlights that while some leading consumer-facing brands have demonstrated a genuine effort to address risks, the majority of their peers have failed to act, preventing the emergence of a level playing field. There are signs that the U.K. government's position on enforcement may be evolving, however; a recent review of the Modern Slavery Act proposed stricter enforcement action, including the possibility of introducing fines and directors' disqualification for non-compliance. Furthermore, from March 31, 2019, U.K. companies that fail to publish a modern slavery statement risk being publicly named and shamed, with the potential to cause significant reputational damage.

In parallel, developments in Europe signal a new trend towards corporate accountability for human rights violations in supply chains. Adopted in 2017, the French Duty of Vigilance Law establishes a legally binding obligation on the largest companies in France to identify and prevent adverse human rights impacts in their supply chains. The law has increased the stakes for business by introducing judicial enforcement mechanisms, including a legal right of action for victims. Further, a proposed Dutch Child Labor Due Diligence Law would require companies registered in the Netherlands, as well as those selling to Dutch customers, to develop child labor due diligence plans. Initiatives advocating for the adoption of similar mandatory human rights due diligence regimes also are currently underway in Switzerland, Finland, Norway and Germany.

Many increasingly see modern slavery as a business-critical issue for corporate credibility. Legislation has turned up the pressure on corporations to address modern slavery risks throughout their supply chains. With a growing number of countries adopting supply chain regulation, we can expect greater investor scrutiny, as well as increased financial, legal and reputational risks for non-compliant companies.

Biometrics: At **Northrop Grumman**, the Sisters of St. Dominic of Caldwell, N.J., ask for a report on its management systems and processes to implement its human rights policy. The proposal expresses concern about a new Department of Homeland Security contract for which the company will develop biometric identification information. The proponents are worried about potential racial bias and privacy issues as well as adverse impacts on immigrant communities. The company has challenged the resolution at the SEC, arguing it concerns ordinary business, seeks to micromanage its business, and is moot given the company's human rights policy. (Also see p. 60 for Amazon.com proposal about facial recognition software.)

Prison Labor

Reporting: NorthStar Asset Management has expanded an effort begun last year, asking four companies (up from two last year) to report about products that may be made with prison labor. Last year the proposal was to adopt a policy and it earned 4.8 percent at **Costco**, which later in the year adopted a policy. That proposal also earned 7.8 percent at **TJX**.

This year, NorthStar asked Costco "to produce an annual report to shareholders…regarding information known to the company regarding supplier compliance with the company's Global Policy on Prison Labor." It earned 28.7 percent in January. A resolution to **Home Depot** and **IBM** asks that the report summarize "the extent of known usage of prison labor in the company's supply chain," while at TJX, it asks that the report assess "the effectiveness of current company policies for preventing instances of prison labor in the company's supply chain. NorthStar contends Home Depot does not ban all forms of prison labor and points to a lawsuit filed against it regarding some products made by prisoners.

After IBM described its existing procedures to monitor for prison labor in its supply chain, NorthStar withdrew. IBM also agreed to further collaboration on the issue in 2019.

Adopt policy: At **Walmart**, the Nathan Cummings Foundation also raises a new concern about the provisions of legally permissible prison labor. The foundation asks the company to

> adopt a policy on the use of prison and unpaid diversion program labor by suppliers, including a policy that commits the Company to:
>
> a. Develop and apply additional criteria or guidelines for suppliers regarding the use of prison and diversion program labor; and
>
> b. Report to shareholders, at reasonable cost and omitting proprietary information, on Walmart's progress in implementing the policy.

Human Trafficking

Christian Brothers Investment Services (CBIS) has

proposed that three companies report on online child sexual exploitation. It withdrew after discussions at **Apple**, having sought

> a report, including a risk evaluation…by February 2020, assessing whether Apple's products, services, policies and practices are sufficient to prevent material impacts to the company's finances, brand reputation, or product demand, in light of strong public concern regarding the growing risk to children of sexual exploitation online.

CBIS, Proxy Impact, and faith-based investor have pending resolutions at **Sprint** and **Verizon Communications** that are seeking

> a report on the potential sexual exploitation of children through the company's products and services, including a risk evaluation…by March 2020, assessing whether the company's oversight, policies and practices are sufficient to prevent material impacts to the company's brand reputation, product demand or social license.

These resolutions are the beginning of a new campaign that will engage a wide variety of IT companies involved with data storage, social media and telecommunications, as well as at device producers. Seventy-five percent of children trafficked or sold for sex are advertised online. Mobile devices have led to a dramatic increase in online child sex imagery—at least 50,000 new images are posted each year online and more than half of these are of children 10 years old or younger.

advocacyposition

CHILD SEXUAL EXPLOITATION ONLINE—A GROWING RISK FOR THE TECHNOLOGY SECTOR

TRACEY C. REMBERT

Director of Catholic Responsible Investing, Christian Brothers Investment Services, Inc. (CBIS)

While Information and Communications Technology (ICT) companies are now widely-held components of many investor portfolios, they are also at the center of an escalating trend in children being sexually exploited and abused online. The technology used in sex crimes against children is ubiquitous, from smartphones to gaming consoles, and through various apps, text messaging, social media sites, cloud storage, and more. And yet, ICT companies rarely disclose how they are combating these growing risks, from identifying and blocking child sex images, to investing in new solutions to stay ahead of the abusers.

In 2017, CBIS began working with child welfare advocates to better hold companies accountable, calling for actions to find and disrupt such exploitation—within the confines of the law and consumer privacy rights. U.S. law compels several types of ICT companies to report child sex abuse content when found, but it doesn't compel companies to actively look for it.

How Big Is the Problem?

Interpol reported about 4,000 unique child sex abuse images worldwide in 1995, but the U.N. Office of Drugs and Crime now estimates at least 50,000 new such images appearing online each year. Additionally:

- The Internet Watch Foundation noted that 55 percent of child sex imagery reported to it in 2017 was of children 10 or younger, and that domain names showing children being sexually abused jumped by 57 percent from 2016 to 2017;
- The National Center for Missing and Exploited Children has sent over 160,000 notices to electronic service providers regarding public web pages where suspected abuse images appeared.
- According to nonprofit Thorn, 75 percent of sex-trafficked minors are now advertised online.

What Can Investors Do?

CBIS has organized child protection experts and investors from five countries to develop *Tech Expectations for Combating Child Sex Exploitation Online*. That guidance will be released in 2019 and will be used to benchmark ICT companies globally on their performance and policies to protect children online from sexual harm, and to identify leading practices that other investors can use in engagements with their technology holdings. CBIS filed shareholder resolutions with **Apple**, **Verizon Communications** and **Sprint** for the 2019 proxy season (some since withdrawn), after poor responses from those companies during 2017-18. Other resolutions and letters to companies will be launched this year. We are asking companies to commit to:

- **Robust policies in "Terms of Service" (user) agreements** for customers, software developers, and third-parties, with clear discussion of monitoring and enforcement of those terms, and how users can report child exploitation online.
- **Stronger relationships with child protection advocates**, to understand and keep up with trends and risks.
- **Online Safety Teams, in-house**, where team members actively monitor their systems, products, and business model for illegal/endangering content, and figure out how to innovate to stay ahead of the growing risks.
- **Software or tools to identify, track or halt abusive imagery.**
- **Stronger content/parental controls** and shifting that burden from parents-only, to shared obligations between companies who know the technology and caregivers tasked with keeping up.
- **User education, social media, and training** for parents, children and educators on online risks and best practices in protecting children from online harm.

Trucking: The Presbyterian Church (USA) has withdrawn a proposal to **Hub Group** that asks it to report "on the implementation of a program to address human trafficking internally and in its supply chain." The withdrawal came after discussions with the company and Truckers Against Trafficking. The supporting statement suggested the report include a policy statement, overview of company education and training efforts, plans for customer communications, information for trucker contacts at its destinations and publish an annual report.

Sugarcane supply chain: As You Sow has resubmitted a resolution to **Monster Beverage**, asking it to issue a report by November "containing the criteria and analytical methodology used to determine its conclusion of 'minimal risk' of slavery and human trafficking in its sugarcane supply chain." The resolution earned 19.9 percent in 2018.

Water

NorthStar Asset Management has withdrawn a resubmitted proposal at **American Water Works** given a technical problem. It asked for a report, "tracking our Company's impacts and responses on the human right to water and sanitation." It raised general questions but also a specific concern about its operations in West Virginia and California. A similar proposal earned 13.7 percent in 2018.

At **Chevron**, the Sisters of St. Francis of Philadelphia is asking for a report "on the company's due diligence process to identify and address risks related to the Human Right to Water throughout its operations." It says the report should:

- Outline the human right to water impacts of Chevron's business activities, including company-owned operations and value chain;
- Explain the types and extent of stakeholder consultation; and
- Address Chevron's plans to track effectiveness of measures to assess, prevent, mitigate, and remedy adverse impacts on the human right to water.

Hate Speech and Offensive Products

At **Amazon.com**, the Nathan Cummings Foundation wants a

> report on its efforts to address hate speech and the sale of offensive products throughout its businesses. The report should…discuss Amazon's process to develop policies to address hate speech and offensive products, the experts and stakeholders it consulted while developing these policies and the enforcement mechanisms it has put in place, or intends to put in place, to ensure compliance.

In the resolution, Nathan Cummings points out an increase in hate crimes and observes, "some have suggested that online hate speech, which Merriam-Webster defines as speech expressing hatred of a particular group of people, can help weaken inhibitions against harmful acts." The company's policy is not to offer products that "promote, incite or glorify hatred, violence, racial, sexual or religious intolerance or promote organizations with such views," but the resolution asserts it is inconsistently applied and that a July 2018 report found "racist, Islamophobic, homophobic and anti-Semitic items on Amazon's platforms." It concludes the company may damage its reputation and "relationships with key stakeholders including customers, regulators and employees."

(Additional resolutions related to hate speech are in Media section, below.)

MEDIA

Investors continue to file shareholder resolutions that mirror the public debate about the negative influence of electronic media on public and private discourse and behavior—and the related risks to companies. As in 2018, resolutions concern hate speech and the Internet as well as privacy and cybersecurity.

Media

Company	Proposal	Lead Filer	Status
Content Management			
Alphabet	Report on problematic media content management	Arjuna Capital, NYSCRF	June
Facebook	Report on problematic media content management	Arjuna Capital, NYSCRF	May
Twitter	Report on problematic media content management	Arjuna Capital, NYSCRF	May
Network Access			
Verizon Communications	Report on telecom service and California fires	Harrington Investments	withdrawn
Privacy			
Amazon.com	Ban sales of facial recognition software	Srs. of St. Joseph of Brentwood	May

Content management: Arjuna Capital has returned to the three big social media companies—**Alphabet**, **Facebook** and **Twitter**—with a resolution similar to last year's on problematic content, issues it raised first two years ago. It has been joined in its critiques of the media firms by leading pension fund NYSCRF and the Illinois Treasurer's Office, as well as Harrington Investments.

At **Alphabet**, the proposal is a resubmitted request for a report "on major global content management controversies (including election interference)… reviewing the efficacy of governance, oversight and policies on content disseminated on its platform and assessing the magnitude of any risks posed to the company's finances, operations, and reputation." The resolution earned 12.8 percent in 2018, a high vote where the founders control a large swathe of the stock.

The resolution notes concerns about Russian interference in U.S. elections and concludes the company's response has been "insufficient" and puts long-term value at risk. The proposal reiterates the concept of the company as an "information fiduciary" and says Alphabet must "demonstrate how it responsibly manages content on its platform." The proposal suggests the scrutiny in Congress and elsewhere may prompt the regulation of tech companies as public utilities.

At **Facebook**, the resolved clause is the same. Last year it earned 10.3 percent, after a much lower vote of 0.8 percent in 2017. It points out a $100 billion decline in Facebook's market capitalization after news broke in March 2018 that personal data had been used by Cambridge Analytica, followed by another $100 billion decline after its July quarterly earnings call reported growing costs and declining revenue growth. Arjuna concludes these risks are being priced into the market but that the company's "approach to content governance has proven ad hoc, ineffectual, and poses continued risk to shareholder value." More than 40 percent of young Americans deleted the company's app and even more now use it less frequently, it says.

The Facebook proposal urges consideration of the Santa Clara Principles about content moderation and transparency, which call for release of the following metrics:

- Numbers (posts removed, accounts suspended)
- Notices (of content removals, account suspensions)
- Appeals (for users impacted by removals, suspensions)

FACEBOOK INVESTORS PRESS FOR CONTENT GOVERNANCE

NATASHA LAMB

Managing Partner, Arjuna Capital

News of Cambridge Analytica's misappropriation of millions of **Facebook** users' data preceded a decline in Facebook's stock market capitalization of over $100 billion in March 2018. Another 100 billion plus decline in market value—a record-setting drop—came in July 2018 after Facebook's quarterly earnings report reflected increasing costs and decreasing revenue growth.

These abrupt market reactions likely reflect investors' deep concern over the company's inadequate approach to governing content appearing on its platforms. As shareholders, we are concerned Facebook's approach to content governance has been ad hoc and ineffectual, and poses continued risk to shareholder value.

For two years, Arjuna has been sounding an alarm at Facebook—a call which, initially, fell on deaf ears. In December 2016, our clients used the power of their share ownership to file a proposal at the social media giant asking its board to describe the impact that "fake news" on its platform has on the democratic process. When that proposal went to a vote in June 2017, it received little investor support. Recent revelations, however, underline the prescience of our concerns.

This year's proposal, filed by Arjuna Capital and the New York State Common Retirement Fund, asks the board to report on the more encompassing notion of "content governance." That is, how Facebook is managing the risks posed by election interference, fake news, hate speech, sexual harassment and violence disseminated over its platforms.

Since September 2017, Congress has called Facebook to testify three times. Only then did we learn of the 87 million Americans whose data was compromised and the over 200 million Americans who viewed propaganda in the lead up to the 2016 presidential election. In February 2019, the Federal Trade Commission began negotiating a multi-billion dollar fine to settle an investigation into Facebook's privacy practices.

But fines and regulatory risk are not investors' only concern. In September 2018 testimony, Chief Operating Officer Sheryl Sandberg said, "Trust is the cornerstone of our business." Yet trust appears seriously eroded. Pew Research found 44 percent of young Americans have deleted the Facebook app from their phones in the past year.

Proxy advisory firm Institutional Shareholder Services issued a report in March 2018 entitled "*Trouble in Tech: a Crisis of Trust in Social Media*," outlining the material risks to Facebook's business—the use of the "platform to influence major international political campaigns," and the "eroded…level of trust among users, calling into question the company's business model and its governance."

In January 2018, U.K. Prime Minister Theresa May used her speech at Davos to tell the World Economic Forum that shareholders have a "vital role" to play in pressing the likes of Facebook to remove inappropriate content. She pointed to the example of Arjuna Capital and the New York State Common Retirement Fund, for filing shareholder resolutions asking Facebook and **Twitter** for details of "abuse that take[s] place on the companies' platforms." She underlined, "Investors can make a big difference here by ensuring trust and safety issues are being properly considered. And I urge them to do so."

Recent efforts to address these concerns are insufficient, in Arjuna's view, and continue to raise fundamental concerns about "democracy, human rights, and freedom of expression"—involving violence against the Rohingya and refugees in Germany, as well as racist or sexist posts.

A slightly different list of concerns is in the **Twitter** proposal, which last year earned 35.7 percent support. The resolution seeks a report "reviewing the efficacy of its enforcement of its terms of service related to content policies and assessing the risks posed by content management controversies (including election interference, fake news, hate speech and sexual harassment) to the company's finances, operations and reputation." The Twitter proposal presents concerns similar to those in the other two proposals, about management of the platform and Russian interference in U.S. elections and misinformation, as well as "hate speech that can threaten marginalized groups and undermine our democracy." The resolution criticizes Twitter's reported use in 2017 of racist and sexist words for ad targeting, and expresses concern about fake user accounts and tweets from bots. The supporting statement says the requested report should "include assessment of the scope of platform abuses, impacts on free speech, and address related ethical concerns."

Network access: Harrington Investments filed and then withdrew a proposal to **Verizon Communications** about alleged "throttling" of its network during the 2018 California wildfires. The proposal sought a report

> with a summary analysis on whether our Company "throttled" service during the 2018 Mendocino Complex Fire and other similar 2018 fire events, the Company's assessment of whether any such throttling interfered with fire safety personnel's ability to function effectively in emergency firefighting activities, and any measures the Company is taking to prevent similar actions in the future to reduce the risk to our Company's reputation and corporate responsibility profile.

Harrington noted in its withdrawal the company's review of its services during the wildfires. Verizon also had challenged the proposal at the SEC, arguing it related to ordinary business since it addressed products and pricing and customer relations. The challenge described a board review of company service during the fires and the company's plan to prevent future similar problems.

Privacy: One more new resolution takes up additional concerns about privacy at **Amazon.com**. The Sisters of St. Joseph of Brentwood want the company to "prohibit sales of facial recognition technology to government agencies unless the Board concludes, after an evaluation using independent evidence, that the technology does not cause or contribute to actual or potential violations of civil and human rights." The proposal says privacy and civil liberties risks associated with the company's Rekognition facial analysis application justify the report. The company has challenged it at the SEC, arguing it is not significantly related to its business and is ordinary business. Critics contend that the Rekognition program can enable surveillance that may violate human rights and target minority groups. The proponents point out that Amazon Web Services provide cloud computing services to the U.S. Immigration and Customs Enforcement agency and may be marketing Rekognition to ICE, "despite concerns Rekognition could facilitate immigrant surveillance and racial profiling." The supporting statement says the company should assess:

- The extent to which such technology may endanger or violate privacy or civil rights, and disproportionately impact people of color, immigrants, and activists, and how Amazon would mitigate these risks.
- The extent to which such technologies may be marketed and sold to repressive governments, identified by the United States Department of State Country Reports on Human Rights Practices.

(Also see p. 53 for proposal at **Northrop Grumman** on its human rights policy and biometric identification.)

SUSTAINABLE GOVERNANCE

The convergence between more traditional concerns about how companies are governed and social and environmental topics continues. This interest is expressed in proxy season in resolutions about how companies make their social and environmental policy decisions—and who is on the board to do so—as well as in proposals about how companies make themselves accountable to their investors on strategic sustainability issues. This section examines these issues, looking at board diversity, board oversight and sustainability disclosure, links to compensation and proxy voting policies at mutual funds.

There are 44 resolutions about boards, about one-third more than last year; 28 focus on board diversity and another 16 address a variety of board oversight matters. Two dozen concern disclosure—all but two of them asking for sustainability reports, while 20 ask for links between executive pay and different sustainability metrics and just one concerned proxy voting policies at a mutual fund, but it has been withdrawn.

Board Diversity

Company	Proposal	Lead Filer	Status
Alexion Pharmaceuticals	Report on board diversity matrix	NYC pension funds	May
Alliance Data Systems	Report on board diversity matrix	NYC pension funds	June
Atrion	Report on board diversity	Walden Asset Management	withdrawn
Beacon Roofing Supply	Report on board diversity	Pax World Funds	withdrawn
Caesars Entertainment	Report on board diversity	As You Sow	May
Cambrex	Report on board diversity	Trillium Asset Management	April
CBS	Adopt board diversity policy	Nathan Cummings Foundation	withdrawn
Devon Energy	Report on board diversity matrix	NYC pension funds	June
Digital Realty Trust	Report on board diversity	Proxy Impact	May
Discovery	Adopt board diversity policy	Nathan Cummings Foundation	May
Eastman Kodak	Report on board diversity	As You Sow	May
ExxonMobil	Report on board diversity matrix	NYC pension funds	May
Gaming and Leisure Properties	Report on board diversity	New York State Common Retirement Fund	June
IQVIA Holdings	Report on board diversity	Trillium Asset Management	withdrawn
Ligand Pharmacueticals	Report on board diversity	Trillium Asset Management	June
LKQ	Report on board diversity matrix	NYC pension funds	May
Masimo	Report on board diversity	FAFN	May
Minerals Technologies	Report on board diversity matrix	NYC pension funds	withdrawn
Mohawk Industries	Report on board diversity	Boston Common Asset Management	May
New Media Investment Group	Report on board diversity	As You Sow	May
New Residential Investment	Report on board diversity	New York State Common Retirement Fund	May
Noble Energy	Report on board diversity matrix	NYC pension funds	withdrawn
NRG Energy	Report on board diversity matrix	NYC pension funds	April
Safety Insurance Group	Adopt board diversity policy	NorthStar Asset Management	May
Sinclair Broadcast Group	Report on board diversity	New York State Common Retirement Fund	June
Skechers U.S.A.	Report on board diversity	As You Sow	May
TripAdvisor	Report on board diversity	New York State Common Retirement Fund	June
WisdomTree Investments	Report on board diversity	Trillium Asset Management	June

BOARD GOVERNANCE

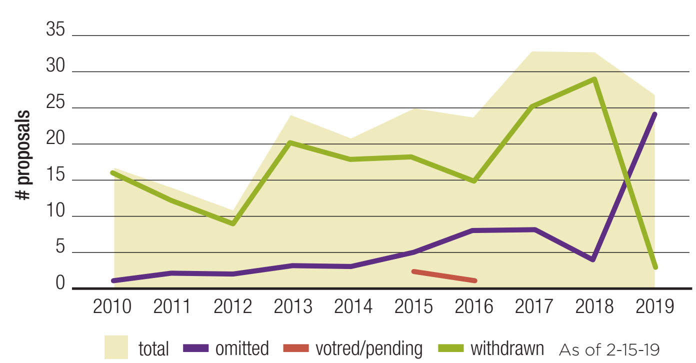
Diversity in the Boardroom

As men at the pinnacle of business and government continue to leave their jobs under the cloud of allegations about sexual misconduct, and as the most diverse class of Congressional representatives takes the reins in Washington, investors are continuing to chip away at boards dominated by white men. Proponents withdrew fully 29 out of 34 resolutions filed on the subject in 2018 after most targeted companies agreed to diversity their selection processes and report to investors. More of the same will occur in 2019. To date, 28 proposals have emerged; more are very likely to crop up as the year progresses.

New this year is the addition in some of the proposals of further differentiating attributes—age, gender identity, gender expression and sexual orientation. All mention gender, race and ethnicity.

The 30 Percent Coalition continues to coordinate resolutions and work in other ways to diversify boards. The coalition's members include senior business executives, civil society groups, institutional investors, corporate governance experts and board members themselves. The proposals ask companies to add more diversity to the board room and report on how they manage this process. Since most of the very largest companies have made some commitment to more diversity, companies further

Board Diversity Proposals Since 2010



COUNTING WOMEN COUNTS: MIXING GENDERS ON BOARDS IS GOOD BUSINESS

AEISHA MASTAGNI
Portfolio Manager, Corporate Governance, California State Teachers' Retirement System (CalSTRS)

Board diversity is not a new topic for investors and governance professionals; it is a topic resonating with a new audience: state legislators.

The California State Teachers' Retirement System (CalSTRS), with a member base that's 74 percent women, has long focused on the lack of women on corporate boards. While we know—and empirical evidence confirms—that companies with women in the boardroom are more successful, our vision of a diverse board includes race, ethnicity, background, skill-sets, age, *and gender*. Still, the large gap between female representation in society (51 percent) and in the boardroom (17.7 percent) remains and is not to be ignored.

The drive to diversify the make-up of corporate boardrooms is not about political correctness. *It is* about the long-term financial success of companies, which translates to the long-term success of CalSTRS' portfolio and our ability to pay the pension benefits of nearly 950,000 California educators and their beneficiaries. In simpler terms—it's all about the bottom line.

Engagement work—to increase the number of women on corporate boards—done by CalSTRS alone and in collaboration with organizations like the Thirty Percent Coalition, in addition to our own efforts conducted via the power of the proxy vote and shareholder proposals, has changed the look of Russell 3000 company boards more than two percent: 15.1 percent in 2016 to 17.7 percent in 2018.

The California Initiative, a collaborative engagement effort with partners, including the Los Angeles County Employees Retirement Association and the Office of the Chief Investment Officer of the Regents, University of California, in the past two years has successfully influenced the appointment of 20 new female directors at 18 companies in our own backyard.

CalSTRS and other institutional investors, believed that if corporations couldn't see the value in board diversity, we would be the drivers for change. In the United States, we did not believe that regulators or legislators would be crusaders for corporate change.

Then in 2018, California Senator Hannah-Beth Jackson introduced legislation that—for the first time in the history of the United States—requires quotas on corporate boards. The bill is now law. To comply with the law, by December 31, 2021, several hundred public companies headquartered in California will have to fill *1,060 board seats* with female directors. The secretary of state of California will publish the information and has the option to impose fines if companies are non-compliant.

Other states have passed non-binding resolutions. Illinois passed a resolution stating that by 2018 every publicly held corporation in Illinois with nine or more seats on its board of directors have a minimum of three women on its board. A similar resolution was passed in Massachusetts in 2015.

But only California's law poses a financial risk to companies, thus speeding up the need for change. CalSTRS is not waiting for the change to happen—increasing the number of women on boards by two percent every two years isn't fast enough. We need to drive faster than the speed limit.

down the revenue ranks are coming under scrutiny. Since 2010, proponents have filed at least 230 proposals, withdrawing nearly three-quarters after companies have made their policies more inclusive, at least on paper. Proponents are most likely to file proposals at companies with no women or people of color on the board, but increasingly they are not satisfied with a token few and seek expanded representation even where one or two board members already are outside the "pale, male and stale" club.

Adopt policy: Just three proposals so far ask for adoption of a policy, with two pending. The Nathan Cummings Foundation resubmitted a proposal to **Discovery** that has gone to a vote annually since 2015. It earned 33.2 percent last year and again asks the company to apply the "Rooney Rule" concept that helped to diversify National Football League coaching. It says Discovery should

> adopt formalized nominating committee procedures for identifying new board candidates. We request that this include a policy to address board diversity which requires that the initial list of candidates from which new management supported director nominees are chosen include (but need not be limited to) qualified women and minority candidates and that any third-party consultant assisting in the identification of potential nominees be asked to include such candidates.

The foundation had to withdraw a similar proposition at **CBS** after a technical problem with its filing pointed out by the company in an SEC challenge. The proposal had highlighted the company's decision to donate departing CEO Lester Moonves' $120 million forfeited severance package to the Time's Up initiative that supports women bringing legal action against alleged workplace abusers. Nathan Cummings said the company's board nomination process is opaque and that the board does not reflect the company's "vast audiences."

Another proposal that suggests using the same idea to diversify nominee pools comes from NorthStar Asset Management. It asks **Safety Insurance Group**, a first-time recipient, to

> adopt a diversity policy in which the Board publicly commits to:
>
> - Ensuring that women and minority candidates are routinely sought as part of each Board search;
> - Expanding director searches to include nominees beyond the executive suite, from non-traditional environments such government, academia, and non-profit organizations; and
> - Reviewing Board composition to ensure that the Board reflects the knowledge, experience, skills, and diversity required for the Board to fulfill its duties.

SCANDAL PLAGUED FACEBOOK NEEDS INDEPENDENT BOARD CHAIR

JONAS KRON
Director of Shareholder Advocacy, Trillium Asset Management

Mark Zuckerberg is both the CEO and Chairman of the Board at **Facebook** and because of his 60 percent voting power, he is, for all intents and purposes, accountable only to himself. Corporate governance experts and the Council of Institutional Investors have argued for years that an independent chair is vastly superior because that person is free of conflicts created by a chair who can excessively influence the rest of the board and its agenda. An independent chair is better able to monitor the management of the company on behalf of its shareholders and we see the structure virtually everywhere. For example, the percentage of S&P 500 companies with a unified CEO/chairman is at a decadal low of 45.6 percent. Leading technology companies like **Apple**, **Alphabet**, **Autodesk**, **Microsoft** and **Intel** all have independent chairmen.

The need for an independent chair at **Facebook** is especially pressing. Communities around the world have never quite experienced anything comparable to Facebook and it's WhatsApp and Instagram products. For the estimated 2 billion members of the Facebook "community," its products have been both empowering and overwhelming—at their best helping to make connections that strengthen personal ties and communities, but at their worst they have painful, anti-social, and sometimes deadly results. Russian meddling in U.S. elections; the proliferation of fake news; propagation of violence in Myanmar, India and South Sudan; as well as contributing to depression and other mental health issues, including stress and addiction, are a few well know examples of these social harms.

Then there are privacy and profiling questions such as allegations of allowing advertisers to exclude black, Hispanic and other "ethnic affinities" from seeing ads; sharing the personal data of 87 million users with Cambridge Analytica; and data sharing with device manufacturers. In short, while offering some genuinely useful services, Facebook's products and behavior have far outstripped our ability to understand what they are doing and have challenged our ability to build guardrails against negative social impacts.

To address this multitude of challenges, there will need to be many solutions, but one of them is to have an independent board chair. Which is why Trillium and more than a dozen other investors—the New York State Comptroller; the treasurers of Illinois, Rhode Island, Connecticut, Oregon, and Pennsylvania; Zevin Asset Management; Azzad Asset Management; Dana Investment Advisors; The Sustainability Group; As You Sow Foundation; the Benedictine Sisters of Mount St. Scholastica; Benedictine Sisters, Sacred Heart Monastery; Congregation of Divine Providence - San Antonio, Texas; Grand Rapids Dominicans; Providence Trust' and Sisters of the Holy Names of Jesus and Mary, US Ontario Province—have filed a shareholder proposal asking for an independent board chair.

The proposal discusses governance and social arguments that favor an independent board chair and concludes with an apology made by Mark Zuckerberg countless times, "We didn't take a broad enough view of our responsibility." We completely agree. This broader view is exactly what an independent board chair can provide and would benefit the company, its shareholders, its employees, its global community of users and democracy.

This is not a recommendation to buy or sell any of the securities mentioned. It should not be assumed that investments in such securities have been or will be profitable. The specific securities were selected on an objective basis and do not represent all of the securities purchased, sold or recommended for advisory clients.

Reporting: Reprising language suggested for several years at other companies about commitment, candidate pools and reporting, proponents note that **Atrion** and **Beacon Roofing Supply** have no women board members and that there is just one woman director at **Cambrex**, **Digital Realty Trust**, **IQVIA Holdings**, **Ligand Pharmaceuticals** and **Mohawk Industries**. Proposals ask each to report before the end of the year on efforts

> to enhance board diversity beyond current levels, such as:
>
> 1. Strengthening Nominating and Corporate Governance policies by embedding a commitment to diversity inclusive of gender, race, ethnicity;
> 2. Commit publicly to include women and people of color in each candidate pool from which director nominees are chosen;
> 3. Report on its process to identify qualified women and people of color for the board.
>
> We believe this request for a status report will help build Board accountability on this issue.

None of the companies has received the proposal before. At Beacon Roofing, the proposal asked also for an "annual assessment of progress and challenges experienced fostering greater diversity.

Gender identity and expression—Nine more reporting proposals add new angles for board membership. As You Sow and Amalgamated Bank want **Caesars Entertainment**, **Eastman Kodak**, **New Media Investment Group** and **Skechers U.S.A.** to report on how each is working

> to enhance board diversity beyond current levels, such as:
>
> 1. Adopt a formal commitment to diversify the Board with respect to such characteristics as gender, race, ethnicity and sexual orientation;

2. Commit publicly to include candidates who are diverse with respect to these characteristics in the pool from which director nominees are chosen;
3. Report on its process for identifying candidates for the board who are diverse with respect to these characteristics.

Another proposal that asks the same thing about "sex, race, ethnicity, age, gender identity, gender expression, and sexual orientation" at **WisdomTree Investments** and four more companies.

Withdrawals—Walden Asset Management withdrew at **Atrion** after the company agreed to fill its next open board seat with a woman. **Beacon Roofing** agreed to amend its corporate governance guidelines and actively reach out to women and minority board nominees, and to include diversity in annual board self-assessments, prompting Pax to withdraw. Proxy Impact and Trillium also withdrew after **IQVIA** agreed to add a commitment to diversity, including gender, race and ethnicity, in its corporate governance guidelines; the resolution noted the company had just one female director. Further, the NYC funds have withdrawn the matrix proposal (see below) at **Minerals Technologies** and **Noble Energy** following agreements.

Board matrix reporting: The New York City pension funds are continuing an effort begun last year to persuade companies to present diversity attributes and other information about board members and nominees in a matrix format that would make it easily comparable. The resolutions this year, as last, ask eight companies—**Alexion Pharmaceuticals**, **Alliance Data Systems**, **Devon Energy**, **ExxonMobil**, **LKQ**, **Minerals Technologies**, **Noble Energy** and **NRG Energy**—to

> disclose to shareholders each director's/nominee's gender and race/ethnicity, as well as skills, experience and attributes that are most relevant in light of Alexion's overall business, long-term strategy and risks, presented in a matrix form . The requested matrix shall not include any attributes the Board identifies as minimum qualifications for all Board candidates in compliance with SEC Regulation S-K.
>
> The requested matrix shall be presented to shareholders in Alexion's annual proxy statement and on its website within six months of the date of the annual meeting, and updated annually.

The proposal is a resubmission at ExxonMobil, where it earned 16.5 percent support in 2018, when the company unsuccessfully challenged the resolution at the SEC, which disagreed that it was too vague and related to ordinary business. It is also a repeat at LKQ and NRG Energy.

Board Oversight

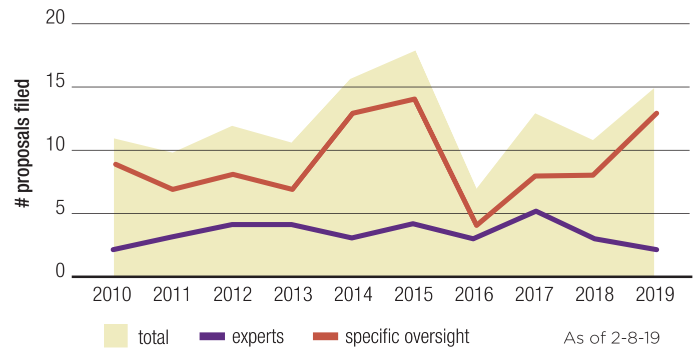
Resolutions about board oversight fall into two functional categories—suggesting specific types of committees are needed to properly oversee complicated sustainability issues (13, up from seven last year at this time) or asking for the nomination of specific types of experts to sit on the board (three this year).

Board Composition and Oversight

Company	Proposal	Lead Filer	Status
Specific Oversight			
AbbVie	Establish board oversight of drug pricing	Srs. of St. Francis of Philadelphia	withdrawn
Amazon.com	Establish board committee on risk	The Sustainability Group	May
Applied Materials	Establish board committee on sustainability	Jing Zhao	March
Bank of America	Take action on board human rights oversight	Harrington Investments	April
Chevron	Establish board committee on climate change	Arjuna Capital	May
Citigroup	Adopt board oversight of human rights	Harrington Investments	withdrawn
ExxonMobil	Establish board committee on climate change	Arjuna Capital	May
Goldman Sachs	Adopt board oversight of human rights	Harrington Investments	withdrawn
Mastercard	Establish board committee on human rights	SumOfUs	June
McDonald's	Establish board committee on food integrity	Harrington Investments	May
Pfizer	Establish board oversight of drug pricing	UAW Retiree Medical Benefits Trust	April
SunTrust Banks	Establish board committee on human rights	United Church Funds	withdrawn
Verizon Communications	Establish board committee on responsibility	Segal Marco Advisors	May
Experts			
Amazon.com	Add human capital management to board qualifications	AFL-CIO	May
Motorola Solutions	Nominate human rights expert to the board	Episcopal Church	May
PNM Resources	Nominate environmental expert to board	Robert Andrew Davis	May

Specific Issues

Board Oversight Proposals Since 2010



Human rights: Proponents raise concerns about a range of human rights issues in five resolutions. At **Citigroup**, Harrington Investments has withdrawn a proposal that asked it to amend a board committee charter "to explicitly require fiduciary oversight by the committee on matters affecting human rights." Harrington reports there will be further dialogue with the company. Citigroup had lodged a challenge at the SEC, arguing it was moot given current oversight and would cause it to violate the law in its call for a connection between fiduciary duty and human rights.

Harrington Investments also proposed that **Goldman Sachs** amend its bylaws to add a new section connecting the board's fiduciary responsibility to "policies or activities of our company affecting issues of human and indigenous peoples' rights." Last year, a slightly different proposal along the same lines was omitted on the grounds that it was moot. Goldman Sachs challenged the 2019 proposal at the SEC, as well, and Harrington withdrew. The 2019 proposal was a binding bylaw amendment.

Harrington wants **Bank of America** to do the same thing and amend its bylaws "to expressly extend the fiduciary duties of directors to oversight of the Human and Indigenous Peoples' Rights policy." The company has challenged the proposal at the SEC, arguing it is moot, illegal, cannot be implemented by the company and is false and misleading, and Harrington withdrew. The proposal was a binding bylaw amendment and Harrington last year withdrew a proposal seeking a more specific policy on indigenous peoples and human rights after the company challenged it on the grounds it was moot.

SomeOfUs says **Mastercard** processes transaction for white supremacist groups and suggests this poses reputational risks. It therefore asks for "a standing committee to oversee the Company's responses to domestic and international developments in human rights that affect Mastercard's business.

The United Church Funds also raises a key current controversy at **SunTrust Banks**, noting that the bank provides funding to U.S. government contractors that help to carry out "zero tolerance" immigration policies, and also underwrites debt for private prison companies that have been involved in detaining immigrants. The proposal asks SunTrust to set up a board level human rights commit "to create company policies and review existing policies…on the human rights of individuals in the US and worldwide, including adopting and assessing criteria for evaluating potential clients' corporate social responsibility record and human rights performance." The parties reached an agreement, which provides for proponent input on the company's materiality assessment for sustainability reporting; SunTrust also will change the charter of its Enterprise Business Practices Committee.

Drug pricing: Proponents want **AbbVie** and **Pfizer** to "take the steps necessary to strengthen Board oversight of prescription drug pricing risk by formalizing oversight responsibility, which could take the form of creating a new Board committee or assigning responsibility to an existing committee, and by adding drug pricing risk expertise to the director qualifications skills matrix." The resolution is new in 2019 and the Sisters of St. Francis of Philadelphia withdrew after discussions at AbbVie, which agreed to additional proxy statement disclosures. AbbVie also had challenged the proposal at the SEC, arguing it consisted of multiple proposals, concerned ordinary business and was moot because of current board oversight and disclosure practices. A challenge has yet to surface at Pfizer.

The proposal contends that given growing problems with drug affordability and legislative and regulatory scrutiny, more oversight at the board level about the pricing of company products is warranted. Further, it says that these companies are particularly vulnerable to risks connected with rising prices given their product mix. *(See p. 72 for related proposals suggesting links to executive pay incentives and p. 49 for a proposal about pharmaceutical pricing.)*

Climate change: Arjuna Capital is asking **Chevron** and **ExxonMobil** each to set up a new board committee on climate change "to evaluate Chevron's strategic vision and responses to climate change. The charter should require the committee to engage in formal review and oversight of corporate strategy, above and beyond matters of legal compliance, to assess the company's responses to climate related risks and opportunities, including the potential impacts of climate change on business, strategy, financial planning, and the environment." ExxonMobil has challenged the proposal at the SEC, arguing it is moot because its Public Issues and Contributions Committee is already charged with climate change oversight.

Food: Last year, Harrington asked **McDonald's** about its charitable contributions and their impact on public debate over healthy food. It is following up with the same theme in a new proposal this year at the company, expressing a wide variety of concerns about the types of food offered by the company and food safety. It wants to see

> a special Board Committee on Food Integrity to restore public confidence in our Company's reputation for food quality and integrity. The committee should assess the recent company breaches of safety and security of McDonald's restaurants' food service as well as long term concerns and criticism regarding food quality, recommending any necessary improvements in governance, sanitation and safety systems necessary to instill in our Company's culture the highest standards of food quality and security.

The company has challenged the resolution at the SEC, arguing it relates to ordinary business since it concerns food preparation methods, which it says are quintessentially routine matters for a restauranteur.

Public policy and social risk: The Sustainability Group wants **Amazon.com** to set up a "Social Risk Oversight Committee" that could

> provide an ongoing review of corporate policies and procedures, above and beyond legal and regulatory matters, to assess the potential societal consequences of the Company's products and services, and should offer guidance on strategic decisions. As with the other Committees of the Board, a formal charter for the Committee and a summary of its functions should be made publicly available.

The company has challenged the proposal at the SEC, arguing it can be excluded because it relates to ordinary business, since it concerns the company's product offerings and policies, relates to business practices and operations, and relates to Amazon's choice of technologies.

Jing Zhao wants **Applied Materials** to set up a committee "to oversee the Company's policies including human rights, governmental regulations and international relations affecting the Company's business." But the company successfully challenged the proposal at the SEC, which agreed the resolution was moot – since the board as a whole current oversees public policy issues. In its challenge, the company said its audit committee attends to risk management and Applied Materials already has robust policies about human rights and governmental relations.

Marco Segal suggests that **Verizon Communications** needs a dedicated committee at the board level given the wide range of environmental and social challenges it faces that have the potential to damage its reputation. It notes problems in the last year connect to allegations of mistreatment of pregnant women, allegations of sexual harassment and discrimination, the "throttling" of firefighters' access to its communications network during the California fires, and privacy protections being tightened in Europe and potentially the United States. It points out that competitor AT&T has a dedicated public policy committee but these issues are only one of 14 responsibilities for Verizon's Corporate Governance and Policy Committee. It asserts, "The fact that Verizon finds itself enmeshed in needless controversies suggests that public policy issues are getting short shrift at the board level and that a standalone committee is warranted to avoid reputational damage and other risks on a wide range of issues."

Experts

Only three resolutions in 2019 ask companies about requiring specific types of board experts, but one raises the issue of human capital management, which is new to proxy season. The AFL-CIO is proposing that **Amazon.com** amend its Guidelines on Significant Corporate Governance Issues and "add human capital management to the types of business and professional experience included in the qualifications and skills of a director candidate considered important by its nominating committee. The proposal argues that companies should pay close attention to managing human capital, as it is critical to "value creation and a source of potential risk"—to which boards should attend. It points to BlackRock's focus on the subject as one of its 2018 engagement priorities and the new Human Capital Management Coalition that submitted a petition to the SEC in July 2017, as investors backed by $2.8 trillion in assets under management, seeking more disclosure about corporate policies and practices. In Amazon's case, the proposal says, the company has come under fire for alleged poor treatment of employees in its fulfillment centers, and an "exhausting environment of 'purposeful Darwinism.'"

The other two proposals reprise past concerns. At **Motorola Solutions**, the Episcopal Church asks that the nominating committee choose "at least one [independent] candidate who: has a high level of human rights expertise and experience in human rights matters relevant to Company production and supply chain, related risks, and is widely recognized in business and human rights communities as such." It is a resubmission that earned 10.4 percent in 2018. It also earned 4.9 percent in 2018 at Caterpillar.

Individual investor Robert Andrew Davis proposes that **PNM Resources** proffer an independent board candidate who "has a high level of expertise and experience in environmental and climate change related matters relevant to electric generation and transmission and is widely recognized in the business and environmental communities as an authority in such fields." Davis points to recent UN assessments that point out community risks posed by climate change and "growing losses to American

infrastructure and property and impede the rate of economic growth over this century," to which electric utilities are particularly exposed. He notes that Chevron and ExxonMobil have added climate experts to their boards and assert that PNM would benefit from such a board member.

Sustainability Disclosure and Management

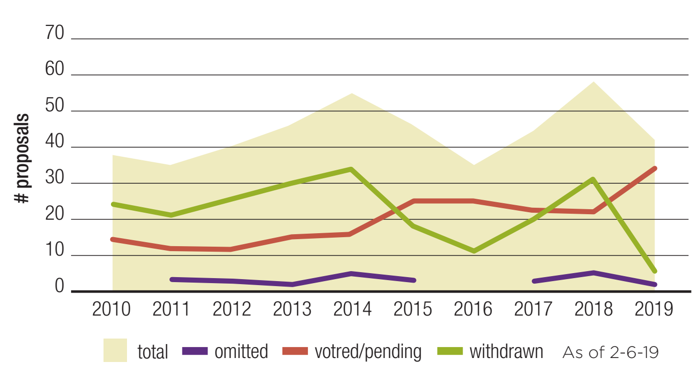
Sustainability Oversight & Management

Company	Proposal	Lead Filer	Status
Metrics Disclosure			
Activision Blizzard	Publish sustainability report	SIllinois State Treasurer	June
Acuity Brands	Publish sustainability report	Trillium Asset Management	withdrawn
Advance Auto Parts	Publish sustainability report with SASB metrics	As You Sow	May
Amazon.com	Report on societal impacts of business	Domini Social Investments	May
American Financial Group	Publish sustainability report	New York State Common Retirement Fund	May
Berkshire Hathaway	Publicize sustainability reporting by subsidiaries	Freeda Cathcart	withdrawn
CarMax	Publish sustainability report with SASB metrics	As You Sow	June
Charter Communications	Publish sustainability report	New York State Common Retirement Fund	April
Crown Castle International	Publish sustainability report	Illinois State Treasurer	withdrawn
Dollar Tree	Publish sustainability report with SASB metrics	Srs. of St. Francis of Philadelphia	June
DTE Energy	Report on environmental record financial impact	Sarah Moore	May
Essex Property Trust	Publish sustainability report with SASB metrics	As You Sow	May
Host Hotels & Resorts	Publish sustainability report	Illinois State Treasurer	withdrawn
Intuitive Surgical	Publish sustainability report	Illinois State Treasurer	April
Mid-America Apartment Communities	Publish sustainability report	Clean Yield Asset Management	May
Middleby	Publish sustainability report	Trillium Asset Management	May
O'Reilly Automotive	Publish sustainability report	Illinois State Treasurer	May
PACCAR	Publish sustainability report with SASB metrics	As You Sow	withdrawn
Papa John's International	Publish sustainability report	New York State Common Retirement Fund	May
Quanta Services	Publish sustainability report	Trillium Asset Management	withdrawn
SBA Communications	Publish sustainability report	First Affirmative Financial Network	withdrawn
Tesla Motors	Publish sustainability report	Trillium Asset Management	June
Walgreens Boots Alliance	Report on work to support SDGs	Srs. of St. Francis of Philadelphia	January
Other Oversight/Management			
Artisan Partners Asset Management	Review and report on ESG proxy voting	Walden Asset Management	May

After a dip in 2016, the number of sustainability reporting resolutions surged back in 2017 and reached 58 proposals in 2018, a high for the decade. Thirty-four are now pending, six have been withdrawn and just two have been omitted. Many more withdrawals are likely, if last year's tendencies hold: there were 31 withdrawals in 2018, surpassing the 22 votes. *(Graph below.)*

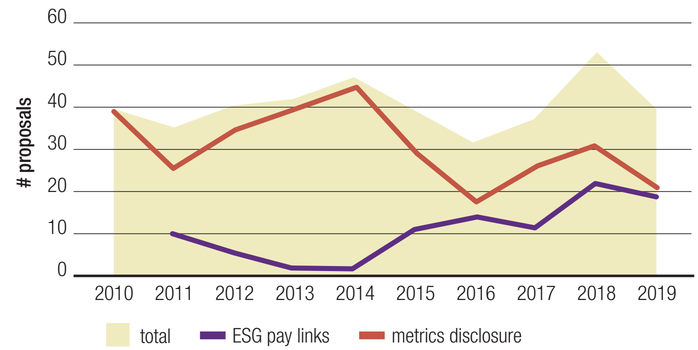
Sustainability reporting in corporate America has become increasingly common, making companies that do not report stand out; proponents are going to the relatively smaller non-reporting firms and asking for disclosure, with 23 resolutions this year seeking reports. At the same time, resolutions increasingly are asking companies to tie sustainability metrics to executive pay incentives. Last year, pay resolutions on an array of topics grew to 22 and this year there are 20. *(Graph p. 68.)* This year, though, the focus so far is even more on tying incentives to drug pricing risks.

Sustainability Governance Since 2010



A handful of proposals over the years have asked large investment managers to review and report on their proxy voting about social and environmental resolutions, with an eye to persuading the firms of these issues' materiality. The big funds started voting in favor of a few climate-relate proposals in 2017, and in 2018 they branched out to support additional proposals about gun rights, the opioid crisis and other topics. This sea change in voting policy has pushed support levels to all-time highs and produced an unprecedented number of majority votes. Just one resolution this year raised the issue, at **Artisan Partner Asset Management**, but Walden Asset Management withdrew when the firm agreed to change its voting policy.

Sustainability Reporting/Pay Links Trend



advocacy**position**

CHANGE IN PROXY VOTING AS MANY ASSET OWNERS ACCEPT ESG AS PART OF FIDUCIARY DUTY

TIMOTHY SMITH
Director of ESG Shareowner Engagement, Walden Asset Management

CARLY GREENBERG, CFA
Manager of ESG Investing, Walden Asset Management

Each year, investors file approximately 800 shareholder resolutions. In 2018, more than 450 proposals focused on environmental and social issues. For a significant portion of these resolutions, companies and proponents reached agreements and the proponents withdrew. But nearly 180 proposals went to a vote.

Shareholders have filed environmental and social proposals since the early 1970s, and resolutions on governance extend back to the 1950s. Early on, both companies and other investors treated environmental, social and governance (ESG) proposals with incredulity. These days, however, many recognize such proposals have strong business cases buttressing their requests and many vote thoughtfully.

While different investors have various mandates for voting proxies, major pension funds and investment firms are clear that their voting is a fiduciary duty and must be aligned with their commitment to long-term shareholder value.

That said, it is fascinating to see the range of voting positions taken by investors who are guided by the same fiduciary principles. Looking at one issue—climate change—provides a good case -in- point. Research done annually by Ceres and Fund Votes illustrate that **Allianz**, **Deutsche Bank**, **Eaton Vance**, **Nuveen** and **Wells Fargo** all voted for over 80 percent of climate related shareholder resolution, while **BlackRock**, **Fidelity**, **T. Rowe Price**, and **Vanguard** voted for under 20 percent of these same resolutions in 2018.

Climate change is one of the most financially significant environmental issues currently facing investors. Huge institutional investors like BlackRock, **State Street** and Vanguard can collectively manage up to 20 percent of the voting rights at some companies, so their voting decisions are extremely significant. When large asset managers do not support climate proposals, companies get the impression that investors do not care about these issues. This is unacceptable. As Gretchen Morgenson of *The New York Times* says, BlackRock "wields its big stick like a wet noodle."

Along with our clients, Walden Asset Management filed shareholder proposals at BlackRock and **JPMorgan Chase** in 2017, requesting improvements in their climate proxy voting. We withdrew the resolutions when the companies announced important changes to their climate change and board diversity proxy voting and corporate engagement practices. In 2017, BlackRock and Vanguard gave their first ever support for two climate resolutions, and increased their support to include a handful of climate resolutions in 2018.

While we are encouraged by these improvements, BlackRock and Vanguard's voting record still badly lags others in their peer group. Clearly these asset managers understand the negative impact of climate change on the business community and the urgency of addressing climate change. Consequently, It is imperative that both translate this understanding into concrete proxy votes to influence how corporations address climate change.

The importance of governance, climate change, diversity and human rights are magnified as material issues for companies when huge global investors affirm that managing these issues is in line with their fiduciary duty to protect shareholder value. The way investors vote their proxies have a significant effect on company policies and practices. With major asset managers finally recognizing the link between ESG and fiduciary duty, we are optimistic about investors, continued ability to promote transformative impact in the years ahead.

NEW REPORT BENCHMARKS INTEGRATED & SUSTAINABILITY REPORTING FOR THE S&P 500

HEIDI WELSH
Executive Director, Sustainable Investments Institute (Si2)

Requests for sustainability reports are evergreen in proxy season; investors have filed more than 300 proposals since 2010. These requests for companies to provide quantified, comparable metrics about their performance on key environmental and social impacts earn substantial, sustained support from investors, with eight majority votes this decade. Most companies are responding in some fashion, providing the metrics mainstream Wall Street analysts want to assess performance.

Last year Si2 published *The State of Sustainability and Integrated Reporting 2018*. It reviewed how many companies in the S&P 500 issue sustainability and/or integrated reports, and the extent to which companies incorporate voluntary information on sustainability in their SEC filings. While 78 percent of the index issues formal sustainability reports with performance metrics, just 14—less than 3 percent—had issued an integrated report as of last year. This is double the number from 2013, but is a very low baseline.

Integrated reporting patterns: Si2 found the following patterns among the 14 integrated reporters:

- Most of the integrated reporters addressed the concept of "creating shared value for all," the new paradigm promoted by the International Integrated Reporting Council (IIRC).
- Integrated reporters are more likely to treat sustainability information as material to investment decisions. Half the integrated reporters (seven companies) offer integrated reports as their annual reports, while three offer them in addition to and separate from annual reports.
- Still, when it comes to SEC filings, only a few companies treat sustainability matters as equal to financial ones. In 2018, just **Intel** and **Clorox** included sustainability issues under business and/or strategy descriptions in their Forms 10-Ks, the key annual financial report every public U.S. company must file with the SEC. Another two—**GE** and **Southwest Airlines**—made brief references to sustainability efforts in 10-Ks and provided links to sustainability data, although the latter also included an explicit disclaimer that its integrated report should not be considered as a part of its 10-K.

Best practices example: Intel is a leader. It publishes a full sustainability report, a summary document that integrates sustainability and financial information and includes a robust related discussion in its Form 10-K. Intel's 2017 sustainability report said that it followed IIRC's recommendations for "Our Business" section of the report, discussing in detail how management incorporates sustainability into its business strategy and value creation framework.

In addition, Intel's 2017 Form 10-K contained a section on "Corporate Responsibility and Sustainability" under a "Fundamentals of Our Business" heading, discussing its environmental responsibility, supply chain responsibility, diversity and inclusion and social impact. The same discussion is in Intel's 2018 proxy statement, which notes the entire board is responsible for overseeing corporate responsibility, sustainability and corporate governance matters, with particular oversight by the board's Corporate Governance and Nominating Committee.

Assurance challenge remains: A general lack of external assurance presents a key challenge for assessing sustainability data reported by companies. Si2 found only 36 percent of sustainability reports indicate they obtained external assurance; 90 percent of this assurance was partial, mostly for GHG emissions. While 3 percent of reporters declared their reports "fully" assured, significant ambiguity exists about what this means.

As companies and investors continue to tussle over the precise nature of what they should report, using which frameworks, we can expect continued attention to data quality and proof that what companies are reporting is accurate.

Reporting

Although sustainability reporting resolutions in 2018 varied quite a bit, in 2019 proponents have stuck to very similar scripts, with two main variants—one that asks about material or "the most important" sustainability metrics, and another that in addition seeks information on climate change data. To date, companies do not appear to have lodged any SEC challenges on these resolutions.

But companies are challenging new proposals that make requests specifically invoking the standards put forth by the Sustainability Accounting Standards Board, as noted below. Other non-standard reporting proposals also seem unlikely to pass muster at the SEC.

Standard reporting requests: The Illinois State Treasurer starting filing shareholder resolutions on behalf of his state's $30 billion investment portfolio last year, and has expanded these efforts in 2019, including five proposals that ask companies to "issue an annual sustainability report describing the company's policies, strategies, performance, and improvement targets on material environmental, social, and governance (ESG) issues," to be issued "within a reasonable timeframe." The proposal is pending at **Activision Blizzard**, **Intuitive Surgical** and **O'Reilly Automotive** for the first time. The Treasurer withdrew following commitments from **Crown Castle International**, where it was filed for the first time, and **Host Hotels & Resorts**, where a more detailed resolution last year earned 31.1 percent support.

advocacyposition

SHAREHOLDERS, WORKING IN CONCERT, CHANGE KINDER MORGAN'S TUNE ON SUSTAINABILITY

LUAN JENIFER
Chief Operating Officer, Miller/Howard Investments

Think back to 2014: At the 20th annual United Nations Climate Change Conference of the Parties (COP 20) in Lima, Peru, political action seemed more achievable than, perhaps, it does today. And think back to last October: Despite the COP 21 global agreement reached in Paris in 2015, the United States had declared its intention to withdraw and political action on the climate front seemed stalled. However, also in those years and around those times, other parties were at the table, advocating for responsible stewardship and disclosure:

- In 2014, **Kinder Morgan** saw, for the first time, a climate change-related proposal on its ballot. Actually, there were three!
- In 2015, three again; and again in 2016; and every year since.
- Institutional investors individually and collectively, through global networks, engaged Kinder Morgan. Some—including the New York State Comptroller, First Affirmative Financial Network, Zevin Asset Management, Robeco Institutional Asset Management B.V., Mercy Investment Services and Miller/Howard Investments—filed environmental resolutions. The requests ranged from publication of a sustainability report, to a 2-degree analysis and scenario report, to a report on methane emissions and reduction targets.
- Each year, an increasing number of fellow shareholders voted to support of the resolutions.

So as politicians wrangled, as lobbyists lobbied…. investors engaged.

What was the outcome?

Over these years, Kinder Morgan moved from providing an absolute dearth of information to adding a Methane Reduction Commitment to "recognizing that addressing climate change is a global priority."

Then, in 2018, a landslide: Majority votes for two of the three resolutions! The votes triggered another more impressive event, publication of the company's inaugural *Environmental, Social, and Governance Report*.

The report includes many of the suggestions and recommendations investors have requested, including using guidance from the Sustainability Accounting Standards Board (SASB), and the Task Force on Climate-Related Financial Disclosures (TCFD). It's informed by the Global Reporting Initiative (GRI), CDP (formerly The Carbon Disclosure Project) and the Ceres Roadmap for Sustainability. Many investors consider these five resources to be best-in-class.

Kinder Morgan's report provides information on methane, greenhouse gas emissions reductions and targets, and a timeline for adding additional information going forward. A 2-degree scenario report is due out in 2019.

Let's take a moment to acknowledge the result of dozens of letters and conversations with company management, millions of shares voted in support of our resolutions, the support and collaboration of powerful investor networks such as Ceres, the Interfaith Center on Corporate Responsibility and the trillion-dollar UN Principles on Responsible Investment. All helped by the tenacity of committed proponents. We don't know if any single thing finally met the internal company threshold for action, but we know the investor community offered strength and persistence.

It may take a village to raise a child. Sometimes it takes the investment world to move a corporation! But it happens, and we are grateful for it.

Now, back to work.

NYSCRF resubmitted a resolution to **American Financial Group** that earned 48.4 percent in 2018. It asks the company to issue by December "an annual sustainability report describing the company's analysis of, and short- and long-term responses to the ESG-related issues that are most important to the company." The fund has filed this proposal at **Papa John's International**, as well, noting that the company does not issue a sustainability report and has little ESG information on its website, in contrast to competitors.

Trillium Asset Management has taken up the baton at **Tesla Motors**, where NYSCRF last year withdrew a somewhat more detailed proposal seeking sustainability information after the company agreed to report. This year, Trillium is asking the company to "issue an annual corporate sustainability report describing the Company's Environmental, Social, and Governance (ESG) policies, management strategies, quantitative performance metrics, and improvement targets." The proposal suggests Tesla should consider reporting using frameworks and standards articulated by the Global Reporting Initiative, CDP, the Sustainability Accounting Standards Board and the Taskforce on Climate-related Financial Disclosure, on a wide range of issues. It notes the company has faced criticism for its health and safety performance while providing little disclosure.

Climate change: A mix of investors have filed the same resolution at six companies, asking them to annually "issue a report describing the company's environmental, social, and governance (ESG) policies, quantitative performance metrics, and improvement targets, including a discussion of greenhouse gas (GHG) emissions management strategies and metrics." The proposal is new and still pending at **Charter Communications**, **Mid-America Apartment Communities** and **SBA Communications**, but withdrawn at **Quanta Services** after the company agreed to publish a report covering its policies, practices, metrics and targets on key ESG issues. The proposal was a resubmission at **Acuity Brands**, where a reporting request received 49.8 percent support in 2018—which appears to have brought the company to the table this year and prompted a withdrawal. Another resubmission is at **Middleby**, where the vote last year was 57.2 percent, up from 44.6 percent in 2017.

Other ESG reporting: Additional proposals raise several different issues but few votes seem likely:

- Domini Social Investments is asking **Amazon.com** for annual reports on the company's "analysis of the community impacts of Amazon's operations, considering near- and long-term local economic and social outcomes, including risks, and the mitigation of those risks, and opportunities arising from its presence in communities."

  The company says the proposal is ordinary business since it relates to the location of company facilities and the SEC has yet to respond to the challenge. (The resolution discusses the company's search for new headquarters locations and social inequities that may result from the new facilities.) Last year, Amazon.com persuaded the SEC that a wide-ranging proposal from the AFL-CIO that asked about "risks arising from the public debate over Amazon's growth and societal impact and how Amazon is managing or mitigating those risks" dealt with ordinary business and SEC staff agreed, saying it related to public relations and the ways in which the company sells its products.
- At **Berkshire Hathaway**, a proposal was tailored to the company's structure as a holding company and asked only for more publicity about subsidiary company sustainability efforts. The proponent withdrew when the company agreed to present the requested information, with links, on its website.
- A resolution at **DTE Energy** that asked for a report on "the impact of its environmental performance challenges on the company's reputation and financial performance" has been omitted because it was filed too late. A similar proposal to the company last year was omitted on ordinary business grounds.
- Another proposal was from the Sisters of St. Francis of Philadelphia, asking **Walgreens Boots Alliance** to report on its work to support the UN Sustainable Development Goals (SDGs), expressing concern about tobacco sales in the company's drugstores. Walgreens prevailed at the SEC in its contention that the proposal was moot. It was a resubmission that last year was omitted on ordinary business grounds.

SASB: Five new proposals specifically invoke the new reporting framework issued last fall by SASB after multi-stakeholder consultation:

advocacyposition

SASB ADDRESSES GROWING DEMAND FOR SUSTAINABILITY DISCLOSURE

PAUL RISSMAN
Co-founder, Rights CoLab

U.S. public companies spend less time communicating with investors about ESG issues than their global peers. They also disclose less. U.S. investors, in turn, fall below the global average when incorporating ESG factors into their strategies, and have less influence over responsible business behavior. This aversion to transparency isn't surprising, due to the treatment of "materiality" within U.S. securities law.

The Supreme Court grappled with the definition of materiality in 1976 and again in 1988, and determined that, for disclosure relevant to the trading of securities, materiality should be defined through the lens of what is important solely to investors. This restricts the concept to what would be considered in a decision to buy, sell or hold a stock, or to vote a proxy. This is known as "financial materiality." The SEC has always considered specific ESG impacts to be financially material, but not to such a degree that it has required robust reporting on the subject. Until the SEC does, businesses are free to avoid disclosure of "immaterial" ESG impacts.

Into this breach has stepped the Sustainability Accounting Standards Board (SASB). From its formation in 2011 until the publication of its standards in November 2018, SASB has had one mission: crafting and compiling sustainability standards that explicitly target financial materiality, based on the Supreme Court's definition. Its standards are tailored to each of 77 industries in 11 sectors. They encourage companies to disclose information on a variety of topics, including greenhouse gas emissions, water usage, indigenous rights, diversity and labor relations.

To garner support for these standards and ensure that they reflect industry understandings of materiality, SASB created working groups of company representatives, industry experts and investors. They tied each standard to financial performance, and required overwhelming consensus for each to survive to publication.

SASB standards are voluntary, but because they are supported by investors, including some of the world's largest, they may constitute an effective disclosure regime. Asset management behemoths like BlackRock, Vanguard and State Street have not only embraced, but also helped to create the SASB standards. All three firms, along with Capital Group, Nuveen/TIAA, and the investment management divisions of Goldman Sachs, Morgan Stanley and Bank of America Merrill Lynch are members of the SASB Investor Advisory Group (IAG).

IAG members subscribe to various statements, encouraging participation in ongoing standards development and suggesting that companies disclose material ESG information. As a group, the SASB IAG collectively manages between 20 and 25 percent of the U.S. stock market. That is a powerful degree of influence.

With IAG members pressing for transparency in sustainability disclosure, even a voluntary regime requires teeth, however. *As You Sow* therefore has filed shareholder resolutions requesting SASB-compliant disclosure with **Essex Property Trust** on water usage, **Fastenal** about workplace diversity; **Advance Auto Parts** and **CarMax** on labor practices; and truck manufacturer **PACCAR** on critical materials disclosure. In response, PACCAR produced a report implementing its proposal, and Essex promised to explore it, underscoring the validity of this new framework.

- The resolution asks **Advance Auto Parts**, **CarMax** and **Dollar Tree** for a report within 180 days of the annual meeting "prepared in consideration of the SASB Multiline and Specialty Retailers & Distributors standard, describing the company's policies, performance, and improvement targets related to material sustainability risks and opportunities."
- At **Essex Property Trust**, it seeks the same sort of report "in consideration of the SASB Real Estate standard… summarizing the company's strategies and practices to mitigate risks, stemming from climate change, to the availability of adequate water resources."
- Finally, at **PACCAR**, it asked that the report be "prepared in consideration of the SASB Industrial Machinery and Goods standard.

SEC action and withdrawal—Advance Auto has lodged a challenge at the SEC, although the specifics of the challenge are not yet available. As You Sow withdrew at PACCAR, since the company had begun to use SASB standards in a new report and will consider expanding its future disclosures consistent with those standards. PACCAR also had lodged an SEC challenge, arguing the proposal was moot given this new report.

ESG Pay Links

The field of resolution seeking links between sustainability issues and executive compensation continues to be broad, but is dominated by drug pricing. This year, nine proposals address the risk of drug price increases and another the opioid crisis; three address senior executive diversity and two are about cybersecurity; further issues, with one proposal each, are risky banking practices, greenhouse gas emissions goals and human rights. Last year, six different proposals sought links to several specific environmental or social issues, as well.

Drug pricing: Proponents are doubling down on an approach they tried last year to address concerns about expensive pharmaceutical drug prices and the long-term risks high prices may pose to companies. Last year, investors gave these

advocacyposition

THE LINK BETWEEN HIGHER DRUG PRICES AND EXECUTIVE PAY

CATHY ROWAN
Director of Socially Responsible Investing, Trinity Health

Prescription drug expenditures make up nearly 20 percent of all health care costs, and spending for prescription drugs is growing faster than any other part of the health care dollar. A **Kaiser Health** Tracking Poll in early 2018 found that one out of four patients have a difficult time affording their medicines. December 2018 POLITICO poll showed the public's top priority for the 116th Congress is taking action to lower prescription drug prices.

While there was a small decrease in prescription drug spending per capita in 2017, the Centers for Medicare and Medicaid Services project that "drug spending will continue to represent a larger proportion of health care spending over time."

Research by the investment bank Leerink showed how pharmaceutical companies have relied on drug price increases to drive growth. For example, price increases for **Pfizer's** nerve pain medication Lyrica drove 90 percent of the more than $1 billion in sales growth Pfizer recorded for the drug between 2014 and 2017. For **AbbVie's** top-selling Humira, price increases accounted for 43 percent of growth.

In 2017, a Credit Suisse report stated that "US drug price rises contributed 100 percent of industry [earnings per share] growth in 2016" and characterized that fact as "the most important issue for a pharma investor today." A 2018 Credit Suisse report concluded that "US drug price rises accounted for 80 percent of the pharmaceutical industry's earnings growth in 2017, despite significant public and political scrutiny."

These reports raise serious concerns about price increases as a long-term business model for drug makers. A model that relies on price increases to achieve revenue targets can have implications for public health and present financial, legal and reputational risks to companies. If a drug company's executive compensation plan is based on short-term market forces, executives might lean on price hikes to grow profits. That approach can create risks when, over time, the market, payers and policy makers push back.

Last year, ICCR members filed shareholder proposals with AbbVie, **Amgen**, **Biogen**, **Bristol-Myers Squibb** and **Eli Lilly**, seeking disclosure of the link between executive pay incentives and U.S. drug prices. Investors sought assurance that executives are not incentivized to increase the price of drugs in order to meet revenue targets. Votes in favor of the proposals ranged from 18 percent to 28 percent.

This proxy season, eight pharmaceutical companies received the proposal: AbbVie; Biogen; Bristol-Myers Squibb; **Celgene**; Eli Lilly; **Merck**; Pfizer; and **Vertex**. Celgene, Merck, Pfizer and Vertex are first-time filings. Shareholders withdrew the proposal at Eli Lilly after the company agreed to increase disclosure. The proposal was not re-filed with Amgen after the company agreed to increase disclosure.

The shareholder's goal in filing this proposal is that the companies will enhance disclosure of 1) their revenue goal setting process, 2) how assumptions about price changes are incorporated when revenue goals are set and 3) how these goals translate into executive incentive pay targets.

resolutions fairly strong support, with most votes in the 20-percent range. The resolution has the same resolved clause at each company, with supporting statements articulating concerns about specific drugs; it asks for an annual report

> on the extent to which risks related to public concern over drug pricing strategies are integrated into [the company's] incentive compensation policies, plans and programs…for senior executives. The report should include, but need not be limited to, discussion of whether incentive compensation arrangements reward, or not penalize, senior executives for (i) adopting pricing strategies, or making and honoring commitments about pricing, that incorporate public concern regarding the level or rate of increase in prescription drug prices; and (ii) considering risks related to drug pricing when setting financial targets for incentive compensation.

Last year the resolution was close to this wording, but the final point was "considering risks related to drug pricing when allocating capital." It is a resubmission at four companies—**AbbVie** (21.8 percent in 2018), **Biogen** (28.2 percent), **Bristol-Myers Squibb** (22.7 percent) and **Eli Lilly** (17.8 percent), and new to five more—**Celgene**, **Johnson & Johnson**, **Merck**, **Pfizer** and **Vertex Pharmaceuticals**.

SEC action—Two companies have lodged SEC challenges. **Bristol-Myers Squibb** contends it relates to ordinary business by dint of micromanagement, invoking the 2018 SEC legal bulletin. Last year, SEC staff disagreed that a similar proposal was ordinary business and also did not think it was moot, as the company argued. **Pfizer** is making another try at the ordinary business rule, as well, saying it raises executive compensation issues that are applicable to the general workforce, which would make the proposal ordinary business; it also says the resolution seeks to micromanage compensation arrangements.

Executive diversity: Last year, Zevin Asset Management asked several tech companies to report about how they might integrate senior executive diversity metrics into CEO incentive pay. There were three withdrawals after agreements and two omissions; the highest vote was 13.3 percent at **United Parcel Service**.

This year, Zevin is back with a similar request at **Alphabet**, where it earned 8.8 percent last year, **Amazon.com** (last year it withdrew after the company noted its CEO receives no incentives) and **Anthem**, a new target. The tech company proposal asks for a report

> assessing the feasibility of integrating sustainability metrics, including metrics regarding diversity among senior executives, into performance measures or vesting conditions that may apply to senior executives under the Company's compensation plans or arrangements. For the purposes of this proposal, "sustainability" is defined as how environmental and social considerations, and related financial impacts, are integrated into long-term corporate strategy, and "diversity" refers to gender, racial, and ethnic diversity.

At Anthem, the request is shorter and asks only for a report by October "assessing the feasibility of integrating sustainability metrics into the performance quotas of senior executives of Anthem Inc. compensation plans."

SEC action—Anthem has told the SEC the resolution should be omitted because Zevin has not provided proof of its stock ownership.

Cybersecurity: At **Verizon Communications**, Trillium Asset Management asks for a report "assessing the feasibility of integrating cyber security and data privacy performance measures into the Verizon executive compensation program." This resolution earned 11.6 percent support in 2018, after an unsuccessful company challenge—in which the SEC rejected the company's contention that this concerned ordinary business. In 2019, the company again makes this argument, reasoning that the compensation program referenced, in the proxy statement, extends to non-executive employees and therefore is a matter of ordinary business.

This resolution, filed by James McRitchie, goes to a vote on March 8 at **Walt Disney**.

Climate goals: As You Sow has withdrawn a proposal that asked **Pinnacle West Capital** for a report on the "feasibility of linking executive compensation metrics to the accomplishment of Paris-aligned greenhouse gas emission reduction objectives." As You Sow withdrew after the company agreed to report. The proposal said the company's carbon intensity GHG target is inconsistent with its financing of natural gas infrastructure and "artificial caps on renewables" in bidding. It also raised concerns about the company's spending "to block renewable energy policy in Arizona." The proposal was new in 2019.

Sustainability metrics: SustainInvest wants **Dunkin' Brands** to report by October, "assessing the feasibility of integrating sustainability metrics into the performance quotas of senior executives of Dunkin Brands Group Inc. compensation plans." The proposal suggests metrics such as workplace and executive level diversity, greenhouse gas reduction goals or "using recycled and/or compostable supply chain inputs."

SEC action—The company has lodged an SEC challenge, arguing the proposal is moot since Dunkin' already links the replacement of foam cups to compensation for some executives and increasing diversity for others, and concerns ordinary business since it addresses matters applicable to the workforce as a whole, not just executive compensation.

Risky banking: NYSCRF has resubmitted a resolution to **Wells Fargo** that earned 21.9 percent last year. The text for this year's resolution is not yet available but last year it sought a report on:

1. whether the Company has identified employees or positions, individually or as part of a group, who are eligible to receive incentive-based compensation that is tied to metrics that could have the ability to expose Wells Fargo to possible material losses, as determined in accordance with generally accepted accounting principles;
2. if the Company has not made such an identification, an explanation of why it has not done so; and
3. if the Company has made such an identification, the:
   a. methodology and criteria used to make such identification;
   b. number of those employees/positions, broken down by division;
   c. aggregate percentage of compensation, broken down by division, paid to those employees/positions that constitutes incentive-based compensation; and
   d. aggregate percentage of such incentive-based compensation that is dependent on (i) short-term, and (ii) long-term performance metrics, in each case as may be defined by Wells Fargo and with an explanation of such metrics.

The requested report would provide shareholders with important information concerning incentive-based compensation that could lead employees to take inappropriate risks that could result in material financial loss to our company.

Opioid legal costs: The Philadelphia Public Employees' Retirement System has a proposal before **AmerisourceBergen** scheduled for a vote on March 1. It also has been filed at **AbbVie** and asks that each

> adopt a policy that no financial performance metric shall be adjusted to exclude Legal or Compliance Costs when evaluating performance for purposes of determining the amount or vesting of any senior executive Incentive Compensation award. "Legal or Compliance Costs" are expenses or charges associated with any investigation, litigation or enforcement action related to drug manufacturing, sales, marketing or distribution, including legal fees; amounts paid in fines, penalties or damages; and amounts paid in connection with monitoring required by any settlement or judgment of claims of the kind described above….

The proponents want the company not to exclude litigation and compliance costs from future performance metrics for executive incentive compensation because of the company's exposure to a myriad of lawsuits from multiple jurisdictions. The company contends it needs flexibility and discretion to design and administer its compensation programs. It also believes that the exclusion of non-recurring or one-time events provide a more accurate picture of company performance.

Human rights: The SEIU Master Trust is taking up human rights and wants **CoreCivic** "to incorporate respect for inmate and detainee human rights into incentive compensation arrangements for senior executives." The proposal expresses concern about lawsuits filed against the company regarding human rights violation allegations, involving both inmates and immigrant detainees—and argues this risk should be addressed in executive compensation arrangements.

ESG Pay Links

Company	Proposal	Lead Filer	Status
AbbVie	Include drug legal costs in executive pay metrics	Philadelphia Public Employees Retirement System	May
AbbVie	Report on executive pay links to drug pricing	United Church Funds	May
Alphabet	Report on executive pay links to executive diversity	Zevin Asset Management	June
Amazon.com	Report on executive pay links to executive diversity	Zevin Asset Management	May
AmerisourceBergen	Include opioid legal costs in executive pay metrics	Philadelphia Public Employees Retirement System	3/1/19
Anthem	Report on executive pay links to executive diversity	Sustainvest Asset Management	May
Biogen	Report on executive pay links to drug pricing	Mercy Investment Services	June
Bristol-Myers Squibb	Report on executive pay links to drug pricing	Trinity Health	May
Celgene	Report on executive pay links to drug pricing	Trinity Health	June
CoreCivic	Link executive pay to sustainability metrics	SEIU Master Trust	May
Dunkin' Brands Group	Report on executive pay links to ESG metrics	Sustainvest Asset Management	3/8/19
Eli Lilly	Report on executive pay links to drug pricing	Mercy Investment Services	May
Johnson & Johnson	Report on executive pay links to drug pricing	Oxfam America	April
Merck	Report on executive pay links to drug pricing	Midwest Capuchins	May
Pfizer	Report on executive pay links to drug pricing	Trinity Health	April
Pinnacle West Capital	Link executive pay to sustainability metrics	As You Sow	withdrawn
Verizon Communications	Report on executive pay links to cybersecurity	Trillium Asset Management	May
Vertex Pharmaceuticals	Report on executive pay links to drug pricing	Trinity Health	May
Walt Disney	Report on executive pay links to cybersecurity	James McRitchie	3/8/19
Wells Fargo	Report on executive pay links to risk banking	New York State Common Retirement Fund	April

CONSERVATIVES

Conservative

Company	Proposal	Lead Filer	Status
Apple	Report on board nominee ideological diversity	NCPPR	3/1/19
Eli Lilly	Report on benefits of lobbying	NCPPR	May
Honeywell International	Report on benefits of lobbying	David Almasi	April
Intel	Make statement on gay pride flag	Chris Hotz	April
Pfizer	Report on benefits of lobbying	NCPPR	April
Starbucks	Report on board nominee ideological diversity	NCPPR	3/20/19

Less information is available at this point in the proxy season than in years past about shareholder resolutions proffered by politically conservative groups, given the government shutdown in December and January that temporarily halted the SEC's evaluation of corporate challenges. SEC listings are a key source of information about these proposals because the proponents do not make them public. It seems likely that more than the six proposals identified so far have been filed, given the long-term trend, but no further information is yet available.

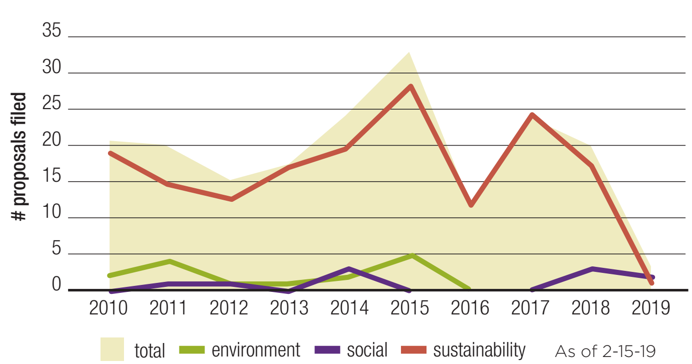
The proposals have expressed support for free market solutions to the world's ills and push-back against policies that favor protections for LGBTQ people or abortion rights; they largely have been about social issues *(top graph)*. Most of the resolutions get omitted on substantive or technical grounds *(bottom graph)*, yielding just a few that go to votes each year.

The National Center for Public Policy Research (NCPPR), a Washington, D.C.-based think tank, is the main player, with resolutions also filed by David Ridenour, one of its principals, and like-minded supporters. NCPPR calls itself "the nation's preeminent free-market activist group focusing on shareholder activism and the confluence of big government and big business."

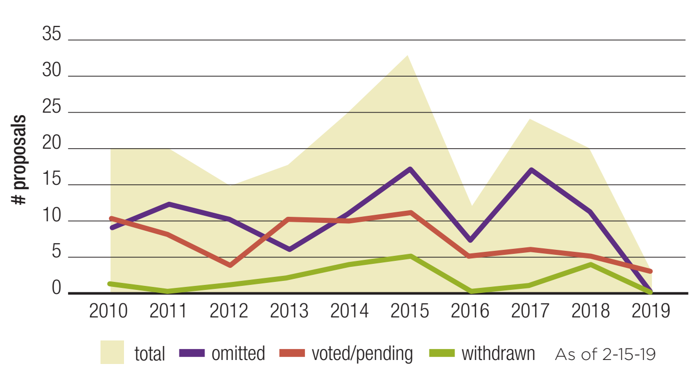
Lobbying: NCPPR supports unfettered corporate spending in the political arena but lifts some language from the resolutions of proponents who are instead looking for spending disclosure. It also is critical of companies that support environmental regulation and incorporates these values in its resolutions. This year, NCPPR is lauding lobbying by **Honeywell**, **Eli Lilly** and **Pfizer** and asks for a report, using the same resolved clause of disclosure advocates concerned about what they see as undue influence in the political system. *(Covered in this report under Political Activity, p. 34.)* NCPPR resolution praises both companies for supporting the American Legislative Exchange Council and the Business Roundtable and says they should continue to "advance economic liberty" and "free speech rights."

SEC action—Honeywell and Pfizer both also received the standard lobbying proposal from the campaign coordinated by Walden and AFSCME, as well as the conservatives' filing. Because they have the identical resolved clause, the proposal received second can be omitted on the grounds it duplicates the first. At Honeywell, the conservative proposal came in second—while at Pfizer it came first; a vote is therefore likely on the NCPPR proposal only at Pfizer.

Conservative Proposals Since 2010



Outcome of Conservative Proposals



At Eli Lilly, no competing corporate political resolution has been filed. But the company has lodged an SEC challenge, saying it can be omitted because lobbying is not financially significant to its business. It provides a detailed discussion of its board's analysis, as suggested in SEC Staff Legal Bulletin 14I in late 2017, and characterizes previous support for lobbying disclosure as "lackluster" but also bolstered by proxy advisory firm ISS's support. A resolution from the main AFSCME/Walden campaign for lobbying disclosure earned 20.1 percent in 2018 and 24.8 percent in 2017, and last year the SEC rejected company attempts to exclude proposals on "insignificance" grounds if they received such levels of support. It seems likely the SEC will reach the same conclusion this year.

Board diversity: Repeating last year's approach that copied board diversity resolutions initially filed by the New York City Comptroller's Office, so far two proposals have shown up, asking **Apple** and **Starbucks** to

> adopt a policy to disclose to shareholders the following:
>
> 1. A description of the specific minimum qualifications that the Board's nominating committee believes must be met by a nominee to be on the board of directors; and
> 2. Each nominee's skills, ideological perspectives, and experience presented in a chart or matrix form.
>
> The disclosure shall be presented to the shareholders through the annual proxy statement and the Company's website within six (6) months of the date of the annual meeting and updated on an annual basis.

At each company, the proposal makes arguments in favor of diversity that parallel those expressed by those seeking greater gender, racial and ethnic diversity on boards of directors. But the proposals also aver that what is missing is "ideological diversity." At Apple, it says the company "and other Silicon Valley firms" do not display "diversity of thought" but instead "operate in ideological hegemony that eschews conservative people, thoughts, and values. This ideological echo chamber can result in groupthink that is the antithesis of diversity. This can be a major risk factor for shareholders." At Starbucks, the resolution also says the company "operates in ideological hegemony that eschews conservative people, thoughts, and values." A similar proposal went to a vote in 2018 at Alphabet but received less than 2 percent support, not enough for resubmission. It also was omitted on technical grounds at Facebook in 2018.

SEC action—SEC staff rejected Apple's assertion this year that the proposal's discussion of "ideological diversity" was too vague, that the proposal has been implemented since it describes board nominee' requirements and characteristics, and that it concerns ordinary business because it would impose specific requirements on proxy statement content. The vote occurred on March 1 at Apple and will be on March 20 at Starbucks.

Gay pride flag: An individual investor has filed a new proposal at **Intel**, asking it to "update its 'Global Human Rights Principles' to include the following statement, as well as displaying said statement on all websites and communications which have Diversity and/or Inclusion as their primary subject matter: 'Intel affirms and believes all that the Pride flag and the Gay Pride movement it is associated with represent or assert to be right and true.'" On its face, the proposal appears to favor Intel's support for its LGBTQ employees. But in the body of the resolution, it notes Intel said flying the rainbow flag at its facilities was "celebrating sexual diversity and gender variance." The proposal asserts this "left those employees from religious or moral traditions which did not celebrate sexual diversity or gender variance unsure as to whether their beliefs were actually being contradicted, or were only publicly perceived to be so, either of which could be disparaging." It concludes that the company should make its suggested statement, but does not precisely explain how this would solve the problem it says exists.

The company has challenged the proposal at the SEC, arguing it is too vague and relates to ordinary business since it concerns workforce management and related communications, and because it seeks to micromanage those communications. An omission seems likely.

NEW DEVELOPMENTS

Shareholder resolutions are a key form of engagement for U.S. investors interested in changing the environmental and social impacts of companies. While much of this advocacy work has been done by large institutional investors (and many socially responsible investment firms) who directly own stock and have the right to vote their shares, there have been some recent efforts to attract retail investors to the ranks of shareholder advocates. A new initiative called YourStake.org that would allow such individual investors to weigh in on shareholder proposals, without actually voting their shares, was launched last year. Furthermore, the mutual fund rating firm Morningstar also has begun to provide ESG ratings for funds alongside its more traditional financial assessments, and in the last year acquired Fund Votes, a firm that has been assessing and reporting on the ways in which mutual funds votes on social and environmental shareholder proposals.

expertinsight

PROXY VOTE DATA ENHANCES FUND RATINGS ON SUSTAINABILITY

JACKIE COOK
Director of Sustainable Stewardship Research, Morningstar

JON HALE
Global Head of Sustainability Research, Morningstar

Recent Morningstar research shows that the number and size of U.S. sustainability funds continues to grow. Notable recent additions include sustainable exchange traded funds (ETFs). Within this universe is a wide variation in strategies and commitment—from considering environmental, social and governance (ESG) alongside other factors, to integrating ESG in the investment process, to impact and green economy-focused funds.

A growing body of academic research shows that sustainability leads to better business practices and superior investment returns. Even where sustainability is not explicit in a fund's purpose, providers of investment instruments are integrating ESG into traditional investment strategies to protect portfolios against new risks and even against general market downturn.

In 2016, Morningstar released the Morningstar Sustainability Rating as a way for investors to compare funds on how well their holdings perform on ESG issues relative to peers. The 2018 release of the Morningstar Carbon Risk Score further expands the range of fund-level sustainability metrics.

In addition to holdings-based ESG analytics, fund investors also want to know how their fiduciaries are stewarding their investments.

The addition of proxy voting as a stewardship metric to Morningstar ratings later in 2019 will provide another way to compare funds and fund managers on sustainability. Indexed proxy voting data, when combined with Morningstar's fund holdings and securities data, will give investors the tools to trace issues and votes to holdings and vote outcomes, thereby affording a new level of transparency to previously opaque and non-standardized disclosures.

Increasingly, fund investors understand the connection between how their retirement savings are invested and their social impact.

How the managers of retirement investments vote on senior executive pay and on shareholder initiatives addressing climate change, for instance, has real implications for fund investors' quality of life. Investors' own retirement funds could well be used to oppose changes that, as citizens, they strongly support—like political spending disclosure.

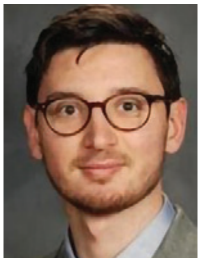
In June 2019, E.U. member states will have implemented the amended Shareholder Rights Directive (SRD II). SRD II encourages asset owners and asset managers to more effectively exercise their stewardship responsibilities. Enhanced disclosure standards include the requirement that managers reflect on how stewardship policy contributes to sustainability. The emphasis on sustainability as a stewardship obligation of investment fiduciaries will likely drive global standards in proxy voting and engagement.

Asset managers who've deployed their beneficiaries' retirement savings across the length and breadth of markets are under pressure from both investors and regulators to show that these funds are being voted and mobilized behind a purpose that goes beyond profit. Furthermore, the increasing concentration of funds in passively-managed vehicles offered by very large managers means that there are few alternative strategies for avoiding material ESG risks that could impact significant portions of the market.

Stewardship via proxy voting and engagement are therefore becoming core investment functions within the largest asset managers and stewardship teams and expertise are expanding.

The power to make informed choices amongst funds based on how their managers vote proxies and how they advocate on ESG issues extends to fund beneficiaries and asset owners a degree of 'voice' inherent in their investments.

advocacyposition




YOUR INVESTMENTS, YOUR VOICE – NEW TOOL FOR INDIVIDUAL SHAREHOLDER ADVOCACY

PATRICK REED
CEO and co-founder, Stake

GABE RISSMAN
President and co-founder, Stake

Imagine only 11 percent of people vote in an election. Imagine the perverse incentives that society would create. Now realize that, for the largest corporations that drive our economy, that is exactly what is happening.

While retail investors, everyday citizens, own roughly 70 percent of the wealth of public companies, fewer than 11 percent of retail accounts use their shareholder rights to vote proxies. Actual participation is even lower because most citizens invest through mutual funds, without direct access to their voting rights.

Worse, special interests are trying to squash shareholder rights. In the past couple of years, industry front groups have attempted to restrict shareholder participation, and block discussion of environmental, social and governance (ESG) issues. Their main argument is that, since participation is so low, people must prefer ESG inaction.

We know they are wrong. The problem is not that people don't care, but rather that few realize their power as shareholders. Over half of American adults own stocks or funds, and it's time to embrace that ownership.

If you own shares in a fund or a company, you have a stake. You have rights to a say in what the company does. We founded yourstake.org to address this imbalance between shareholder desires and shareholder participation. Our goal is to build a movement of active citizen investors.

Stake marries the power of shareholder engagement with the accessibility of online petitions. You can sync your investment accounts to support "Asks" for your companies to improve on social and environmental issues, many of which are raised in shareholder proposals such as greenhouse gas emissions, corporate lobbying, sweatshops and gender pay gap, in real time. Asks also can raise concerns beyond the limits of formal proxy ballots. Companies care about their investor's opinions, no matter the venue.

This design enables shareowners to reclaim their voice within mutual funds, where they don't even get the chance to vote company ballots. When fund managers like Vanguard don't hear from their 20 million investors, they default to inaction on many ESG issues. On Stake, anyone can support an Ask of their mutual funds—to support a cause, change a policy or vote for specific shareholder proposals.

To maximize impact, we pair popular Asks on Stake with experienced sustainable and responsible investor (SRI) "Champions," who have the know-how to engage with funds or companies. As these Champions negotiate with management, they can keep supporters updated on progress. Everyday retail investors don't have the time or the connections to travel and meet with company management, but Champions do.

Our vision is a world where, when people read the news, they think of how their investments relate, and take action. Any time of year. Shareholder engagement must become a simple verb, no less natural than tweeting.

Thanks to the great work of the SRI community, more shareholder resolutions are making progress than ever. Yet, such progress is under threat

To achieve a society where companies are held accountable to the values of the public, the public needs to hold their companies accountable. It's simple.

APPENDIX

More on the Web

All resolutions must conform to the Shareholder Proposal Rule of the Securities and Exchange Act of 1934, which sets procedural as well as substantive standards for admissibility. Read more on **www.proxypreview.org**.

Access research about shareholder proposal issues, organizations, networks and investor campaigns on **www.proxypreview.org**.

Read more about the contributing authors at **www.proxypreview.org**.

Contributors (in alphabetical order)

Chloé Bailey – Program Officer, The Freedom Fund

Susan Baker – Vice President Shareholder Advocacy, Trillium Asset Management

Meredith Benton – Principal, Whistle Stop Capital

Robert Buesing, Jr. – Research Analyst for Consumer Staples, ClearBridge Investments

Laura Campos – Director, Corporate & Political Accountability, Nathan Cummings Foundation

Dan Carroll – Director of Programs, Center for Political Accountability

Jim Coburn – Senior Manager, Disclosure, Ceres

Jackie Cook – Director of Sustainable Stewardship Research, Morningstar

Carla Fredricks – Director, First Peoples Investment Engagement Program, University of Colorado

Bruce Freed – President, Center for Political Accountability

Danielle Fugere – President, As You Sow

Michael Garland – Assistant Comptroller, Corporate Governance and Responsible Investment Office of New York City Comptroller

Carly Greenberg, CFA – Manager of ESG Investing, Walden Asset Management

Jon Hale – Global Head of Sustainability Research, Morningstar

Lila Holzman – Energy Program Manager, As You Sow

Rob Jackson – Commissioner, U.S. Securities and Exchange Commission (SEC)

Luan Jenifer – Chief Operating Officer, Miller/Howard Investments

John Keenan – Corporate Governance Analyst, AFSCME Capital Strategies

Laura Krausa MNM – System Director, Advocacy, Catholic Health Initiatives

Jonas Kron – Director of Shareholder Advocacy, Trillium Asset Management

Natasha Lamb – Managing Partner, Arjuna Capital

Sanford Lewis – Attorney and Director, Shareholder Rights Group

Conrad Mackerron – Senior Vice President, As You Sow

Aeisha Mastagni – Portfolio Manager, Corporate Governance, California State Teachers' Retirement System (CalSTRS)

Mary Jane McQuillen – Head of Environmental, Social and Governance Investment, ClearBridge Investments

Donna Meyer, PH.D. – Director, Shareholder Advocacy, Mercy Investment Services

Brianna Murphy – Vice President Shareholder Advocacy, Trillium Asset Management

Nadira Narine – Senior Program Director, Interfaith Center on Corporate Responsibility (ICCR)

Michael Passoff – CEO, Proxy Impact

Patrick Reed – CEO and co-founder, Stake

Tracey C. Rembert – Director of Catholic Responsible Investing, Christian Brothers Investment Services, Inc. (CBIS)

Gabe Rissman – President and co-founder, Stake

Paul Rissman – Co-founder, Rights CoLab

Cathy Rowan – Director of Socially Responsible Investing, Trinity Health

Leslie Samuelrich – President, Green Century Capital Management

Colleen Scanlon, RN, JD – Senior Vice President, Executive Vice President & Chief Advocacy Officer, CommonSpirit Health (formerly Catholic Health Initiatives)

Timothy Smith – Director of ESG Shareowner Engagement, Walden Asset Management

Christy Spees – Environmental Health Program Manager, As You Sow

Heidi Welsh – Executive Director, Sustainable Investments Institute (Si2)

Pawel Wroblewski, CFA – Director, Portfolio Manager, ClearBridge Investments

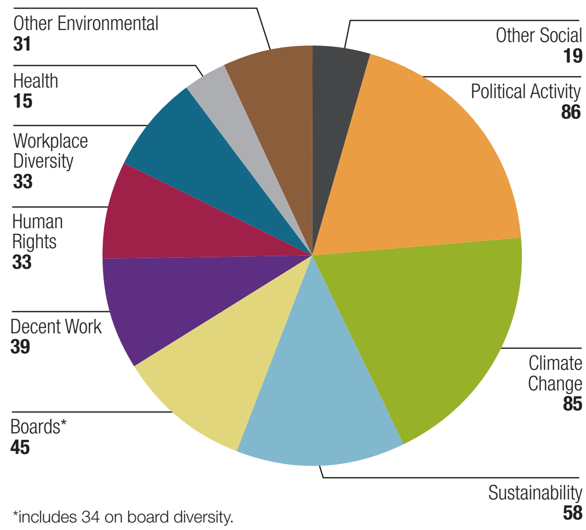
2018 Proxy Season Review and Trends

Investor support for a wide range of shareholder proposals on social and environmental issues increased in 2018; 12 proposals earned majority support, even on issues that previously received little shareholder approval. This appears to show increasing traction among investors for a broad range of "non-financial" concerns, which is reflected in increasing support from large mutual funds, proxy advisors and other investors. It is particularly notable with respect to climate change.

The majorities occurred on hot-button issues that attracted support from the same big mutual funds that changed the landscape of proxy voting in 2017. In 2018, the mutual funds expanded the range of issues they supported, producing a 69 percent vote in favor of gun safety reporting at **Sturm**, **Ruger** and 52.2 percent for the same resolution at **American Outdoor Brands**. Investors also gave majority support for reporting on the risks associated with the opioid crisis—62 percent at **Depomed** and 61.4 percent at **Rite Aid**. *(Table, p. XX, shows all the majority votes.)* Majority support occurred for eight more proposals on climate change and sustainability disclosure, including 80 percent supporting sustainability reporting at **Rite Aid**.

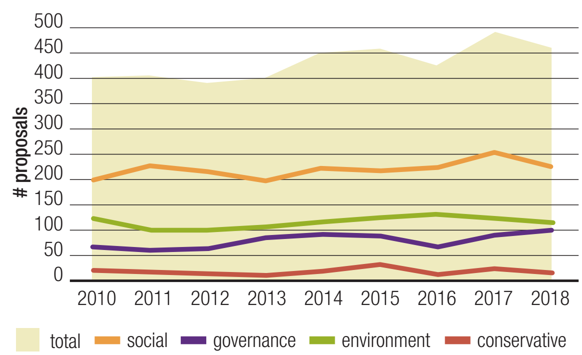
A total of 460 resolutions were filed on social, environmental and sustainable governance topics, down some from the nearly 500 in 2017. Proponents withdrew 210 proposals and 65 were omitted after company challenges at the SEC. Eight did not go to votes for other reasons, usually because of a merger.

Resolutions Filed in 2019



*includes 34 on board diversity.
Pie also includes 18 proposals from conservative groups.

Environmental, Social & Sustainable Governance Filings, 2010–2018



Major Themes

Climate Change

Proponents withdrew most of the resolutions seeking reports on how companies are planning to adjust their business models so the goals of the Paris Climate Treaty can be met, because companies agreed to issue the reports. Yet few energy companies appear to be contemplating fundamental business model changes that will be needed to keep global temperatures in check. Support grew for resolutions seeking goals for greenhouse gas (GHG) emissions goals, though, as well as on other topics like methane leakage and deforestation. Despite high investor support for disclosure of GHG goals (35 percent on average), the SEC no-action letter at **EOG Resources** set the stage for a potential showdown over the issue in 2019, as discussed on p. XX.

Political Activity

Investor support for political activity proposals continued its upward climb, too, although these proposals have yet to attract support from the big mutual funds. Some shareholder proponents of these resolutions feared SEC Staff Legal Bulletin 14J in 2017 might knock out some proposals, and several companies argued vigorously that the bulletin supported omitting proposals on the grounds they are not significantly related to their underlying businesses. But the SEC turned back these corporate requests, noting previous levels of investor support of more than 20 percent.

Diversity

Proposals seeking fair treatment and equal pay for women and people of color, combined with those seeking more diverse boards of directors, made up the third main theme of proxy season in 2018. Three of the high votes (above 40 percent) were for equal employment opportunity proposals. Proponents ended up withdrawing most of the 34 board diversity resolutions after companies agreed to change their nominating procedures to seek more diverse board candidate slates.

New Issues

In addition to the new gun safety and opioid proposals noted above, a key development in 2018 was a raft of about two dozen proposals asking for links between executive compensation and a range of social and sustainability issues. Proposed links between drug pricing, business risks and pay notably attracted support in the 20-percent range, for the first time.

Key Metrics

Volume

The total number of shareholder resolutions filed in 2018 about the environment, social issues and sustainable governance dropped to 460, down from 2017's record of 494. The drop does not signal decreased investor interest in these issues, however; rather, increased engagement between investors and companies means proponents' concerns are being addressed in many cases, negating their need to file proposals. Social issues still dominated in 2018, sustained by continued interest in political activity, decent work and workplace diversity—in addition to human rights and a few more topics. Environmental proposals have remained relatively constant over time but have fallen slightly in the last two years, while sustainable governance resolutions continue to increase. Additionally, filings from political conservatives have stood at a relatively constant low level and dropped a bit recently. *(Graph, p. XX.)*

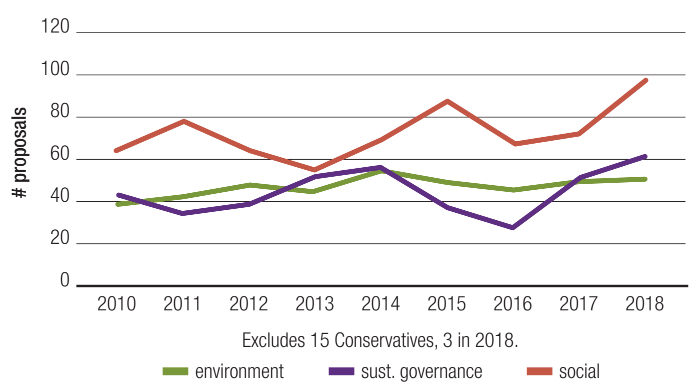
Withdrawn proposals (210) exceeded the number voted on (177) for the first time ever. Omissions fell to 65 from 77 last in 2017. The number voted was down from 237 last year, the lowest of the decade. *(Graph, p. XX.)*

Withdrawals

The increase in withdrawals came at least in part because of some strategic retreats by proponents who judged they would lose company challenges and withdrew before any SEC response to company arguments. But investors also struck deals as company agreed to act, on a host of issues, as in the past.

There was a marked jump in withdrawn proposals about social issues. *(Graph right)*. On particular topics, social issues withdrawals rose notably for gender pay equity (26 withdrawn, up from 16 in 2017), EEO reporting (16, up from seven) and political activity (23, up from 18). For the environment, withdrawals rose but not dramatically—notable was an increase for carbon asset risk reporting (16, up from nine). On sustainable governance, there were lots of withdrawals on board diversity (29, up from 25) and sustainability reporting (20, up from 15).

Withdrawn Proposals



Excludes 15 Conservatives, 3 in 2018.

Climate Change Proposals Omitted in 2018

Reason	Proposal	Company
i-7	Adopt GHG reduction targets	EOG Resources
	Report on net-zero GHG goals	Amazon.com
		Apple
		Deere
		PayPal
		Verizon
	Report on oil sands financing	JPMorgan Chase
	Report on renewable energy goals	Gilead Sciences
		Red Hat
		Rite Aid
i-10	Report on changed carbon asset mix	Exxon Mobil
	Report on energy efficiency efforts	Apple
	Report on stranded carbon assets	PNM Resources
i-12	Report on renewable energy goals	Ameren

i-7: ordinary business
i-10: moot
i-12: previous similar proposal did not earn required support threshold

Omissions

The rate of omitted proposals dropped, despite the new legal bulletin. But the omission rate for climate change proposals rose sharply in 2018, driven by omissions on Rule 14a-8(i)(7), "ordinary business." This reason was used in 2018 more than it ever has been in the past.

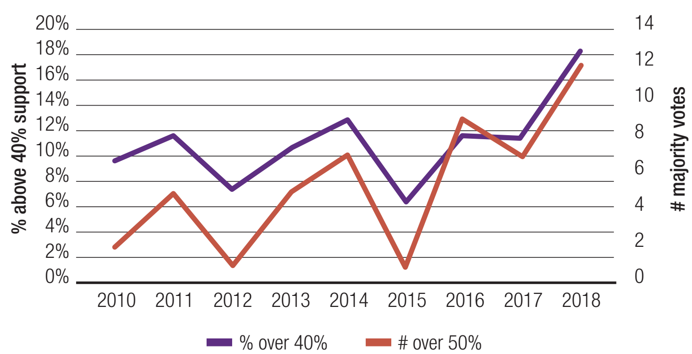
Support

Average support rose to an all-time high of 25.4 percent, up from 21.4 percent in 2017. From 2016 to 2018, 27 resolutions not opposed by management have earned majority support; 46 have done so since 2010. Support is highest for climate change sustainability reporting resolutions, as well as those seeking disclosure of corporate political activity and diversity data.

High scoring proposals: In addition to the 12 majority votes in 2018, another 19 earned between 40 percent and 49 percent *(table p. 83)* and 37 more earned between 30 and 39 percent. Strikingly, all but one of the resolutions that earned the highest support dealt with new issues of intense public debate—gun safety (**American Outdoor Brands** and **Sturm**, **Ruger**) and the opioid crisis (Depomed, now **Assertio**, and **AmerisourceBergen**). As in 2017, more of the top-scorers related in some way to the environment and sustainability (17) than any other categories; six more concerned election spending or lobbying. Three were about equal employment opportunity and one concerned student loans.

Proportion of high scorers up: As the graph at right shows, the proportion of majority votes and high-scoring resolutions is climbing.

High Scoring Proposals



High Scoring 2018 Resolutions

Company	Proposal	Proponent	Vote (%)
Rite Aid	Publish sustainability report x	Sisters of St. Francis, Philadelphia	80.0
Sturm, Ruger	Report on gun safety and harm mitigation	Catholic Health Initiatives	68.8
Depomed (now Assertio)	Report on opioid crisis	UAW Retirees	62.3
Rite Aid	Report on opioid crisis	UAW Ret. Med. Benefits Trust	61.4
Kinder Morgan	Publish sustainability report	New York State Common Retirement Fund	60.4 @
Kinder Morgan	Report on 2-degree analysis and strategy	Zevin Asset Management	59.7 @
Genesee & Wyoming	Adopt GHG reduction targets	Calvert Investments	57.2
Middleby	Publish sustainability report	Trillium Asset Management	57.2 x
Ameren	Report on coal ash risks	Sch. Srs. N. Dame, Ctl Pacific	53.2 @
Anadarko Petroleum	Report on 2-degree analysis and strategy	As You Sow	53.0 *
American Outdoor Brands	Report on gun safety and harm mitigation	Srs. of the Holy Names	52.2
Range Resources	Report on methane emissions/ targets	Unitarian Universalists	50.3
Acuity Brands	Publish sustainability report	Trillium Asset Management	49.8
Old Republic International	Adopt board oversight of climate change	Pax World Funds	48.6
American Financial Group	Publish sustainability report	New York State Common Retirement Fund	48.4
Home Depot	Report on EEO and affirmative action	Benedictine Srs., Boerne - TX	48.3 @
Allstate	Review/report on election spending	Teamsters	46.5 @
Noble Energy	Report on 2-degree analysis and strategy	Presbyterian Church (USA)	45.7 @
CMS Energy	Review/report on election spending	New York State Common Retirement Fund	45.2 @
Chevron	Report on methane emissions/ targets	Park Foundation	45.0 x
Juniper Networks	Disclose EEO-1 data	NYC pension funds	43.9 @
Applied Materials	Disclose EEO-1 data	NYC pension funds	43.8
NextEra Energy	Review/report on election spending	New York State Common Retirement Fund	43.2 x @
Sanderson Farms	Phase out antibiotic use in animal feed	As You Sow	43.1 @
Navient	Report on student loans	Rhode Island Pension Fund	42.8 ! #
Wyndham Worldwide	Review/report on election spending	Mercy Investments	42.8 @
Fluor	Adopt GHG reduction targets	New York State Common Retirement Fund	41.6 @
AmerisourceBergen	Report on opioid crisis	Srs. of St. Francis of Philadelphia	41.2 x
Honeywell International	Report on lobbying	Azzad Asset Management	40.7 @
American Water Works	Report on lobbying	Boston Common Asset Management	40.3
Darden Restaurants	Report on antibiotic use in animal feed	Green Century Funds	40.2

@ Resubmission * Same proposal withdrawn in 2017 # Similar proposal omitted in 2017 x SEC challenge rejected
! SEC challenge lodged but not resolved before proxy issued

COMPANY INDEX

The index below shows with checkmarks (✓) how many proposals have been filed at each company, in each major topic categories presented in this report. More details on each of the resolutions can be found in the tables and text of appropriate sections of the report, as follows:

Company	Climate Change/ Environment	Sustainability Reporting/ Oversight	Corporate Political Activity	Diversity/ Decent Work	Human Rights	Other	Grand Total
AbbVie		✓✓✓	✓			✓	5
Activision Blizzard		✓					1
Acuity Brands		✓					1
Adobe Systems				✓			1
Advance Auto Parts		✓					1
Alaska Air Group			✓				1
Alexion Pharmaceuticals			✓	✓			2
Alliance Data Systems				✓			1
Alliant Energy			✓				1
Allstate			✓				1
Alphabet		✓		✓✓	✓	✓	5
Altria			✓			✓	2
Amazon.com	✓✓✓	✓✓✓✓		✓✓	✓✓	✓	12
American Airlines Group			✓				1
American Express				✓			1
American Financial Group		✓					1
American International Group	✓						1
American Tower			✓				1
American Water Works			✓✓		✓		3
Ameriprise Financial			✓				1
AmerisourceBergen		✓				✓	2
Amphenol					✓		1
Anadarko Petroleum	✓						1
Analog Devices				✓✓			2
Antero Resources	✓						1
Anthem		✓					1
Apple					✓	✓	2
Applied Materials		✓					1
Aramark	✓						1
Archer Daniels Midland	✓						1
Arthur J. Gallagher				✓			1
Artisan Partners Asset Mgt		✓					1
AT&T			✓				1
Atmos Energy	✓						1
Atrion				✓			1
Ball Corporation			✓				1
Bank of America		✓	✓	✓	✓	✓	5
Bank of New York Mellon				✓✓			2
Beacon Roofing Supply				✓			1
Bed Bath & Beyond	✓						1
Berkshire Hathaway		✓					1
Biogen		✓					1

Continued on next page

Company	Climate Change/ Environment	Sustainability Reporting/ Oversight	Corporate Political Activity	Diversity/ Decent Work	Human Rights	Other	Grand Total
BlackRock			✓				1
Boeing			✓				1
Booking Holdings					✓		1
Booz Allen Hamilton					✓		1
BorgWarner				✓			1
Bristol-Myers Squibb		✓				✓	2
C.H. Robinson Worldwide	✓						1
Caesars Entertainment				✓			1
Cambrex				✓			1
CarMax		✓	✓				2
Carter's				✓			1
Caterpillar					✓		1
CBRE Group				✓			1
CBS				✓✓			2
Celgene		✓					1
Centene			✓				1
CenturyLink			✓				1
Charles Schwab			✓				1
Charter Communications		✓					1
Chemed			✓				1
Chevron	✓✓✓	✓	✓		✓✓		7
Chubb Limited	✓		✓				2
CIGNA				✓			1
Cincinnati Financial				✓			1
Citigroup		✓	✓	✓✓			4
Citizens Financial Group				✓			1
CMS Energy			✓				1
Coca-Cola						✓	1
Cognizant Tech. Solutions			✓				1
Comcast			✓				1
Concho Resources	✓						1
Continental Resources	✓						1
Cooper Companies	✓						1
CoreCivic		✓			✓		2
Corning					✓		1
CorVel				✓			1
Costco Wholesale	✓				✓		2
Crown Castle International		✓					1
DaVita HealthCare Partners			✓	✓			2
Devon Energy	✓		✓	✓			3
Diamondback Energy	✓						1
Digital Realty Trust				✓			1
Discovery				✓			1
Dollar General	✓						1
Dollar Tree		✓					1
Dominion Energy	✓						1
Domino's Pizza	✓						1
DowDupont	✓✓						2
DTE Energy	✓	✓	✓				3
Duke Energy	✓		✓✓				3
Dunkin' Brands Group		✓			✓		2
Eastman Kodak				✓			1

Continued on next page

Company	Climate Change/ Environment	Sustainability Reporting/ Oversight	Corporate Political Activity	Diversity/ Decent Work	Human Rights	Other	Grand Total
Eli Lilly		✓				✓✓	3
Emerson Electric	✓		✓				2
Energen	✓						1
EOG Resources	✓						1
Equifax			✓				1
Equinix			✓				1
Essex Property Trust		✓					1
Expeditors Int'l of Washington			✓				1
ExxonMobil	✓✓✓✓✓	✓	✓✓	✓			9
F5 Networks				✓			1
Facebook				✓		✓	2
Fastenal				✓			1
Fiserv			✓				1
Flowserve	✓						1
Fluor	✓						1
Ford Motor			✓✓				2
Fortune Brands Home & Security			✓				1
Franklin Resources					✓		1
Gaming and Leisure Properties				✓			1
General Electric	✓		✓				2
General Motors			✓				1
GEO Group					✓✓		2
Gilead Sciences						✓	1
Goldman Sachs	✓	✓					2
Goodyear Tire & Rubber	✓						1
Hanesbrands					✓		1
Harley-Davidson	✓						1
Hartford Financial Services				✓			1
Henry Schein			✓				1
Hess	✓						1
Hilton Worldwide Holdings			✓				1
HollyFrontier				✓			1
Home Depot	✓			✓	✓		3
Honeywell International			✓			✓	2
Host Hotels & Resorts		✓					1
Hub Group					✓		1
IBM			✓		✓		2
IDEXX Laboratories				✓			1
Illinois Tool Works	✓						1
Illumina			✓				1
Ingersoll-Rand			✓				1
Insys Therapeutics						✓	1
Intel			✓	✓		✓	3
Intuitive Surgical		✓		✓			2
IQVIA Holdings				✓			1
J.B. Hunt Transport Services	✓		✓				2
Johnson & Johnson		✓				✓	2
JPMorgan Chase	✓		✓✓	✓		✓	5
Keurig Dr Pepper	✓						1
Kimberly-Clark			✓				1
Kohl's	✓		✓				2
Kraft Heinz					✓		1

Continued on next page

Company	Climate Change/ Environment	Sustainability Reporting/ Oversight	Corporate Political Activity	Diversity/ Decent Work	Human Rights	Other	Grand Total
Kroger	✓		✓				2
Ligand Pharmaceuticals				✓			1
Lincoln National				✓			1
LKQ				✓			1
Loews			✓				1
Macy's			✓		✓		2
Marathon Oil	✓						1
Marathon Petroleum				✓			1
Marsh & McLennan				✓			1
Martin Marietta	✓						1
Masimo				✓			1
Mastercard		✓	✓	✓			3
McCormick & Company	✓						1
McDonald's	✓	✓		✓			3
Merck		✓					1
MGE Energy	✓✓✓						3
Mid-Amer. Apt. Communities		✓					1
Middleby		✓					1
Minerals Technologies				✓			1
Mohawk Industries				✓			1
Mondelēz International	✓		✓				2
Monster Beverage					✓		1
Morgan Stanley			✓				1
Motorola Solutions		✓	✓				2
MSCI			✓				1
Netflix			✓				1
New Media Investment Grp				✓			1
New Residential Investment				✓			1
Newell Brands				✓			1
NextEra Energy			✓				1
Noble Energy				✓			1
Northern Trust			✓				1
Northrop Grumman					✓		1
NRG Energy			✓	✓			2
Nucor			✓✓				2
Oracle			✓	✓			2
O'Reilly Automotive		✓		✓			2
PACCAR		✓					1
Papa John's International		✓					1
PayPal			✓		✓		2
PepsiCo	✓✓						2
Pfizer		✓✓	✓	✓		✓✓	6
Philip Morris International						✓	1
Phillips 66	✓						1
Pilgrim's Pride	✓				✓		2
Pinnacle West Capital		✓					1
PNM Resources	✓✓	✓					3
Quanta Services		✓					1
Quest Diagnostics				✓			1
Range Resources	✓						1
Red Hat			✓				1
Reliance Steel & Aluminum			✓				1

Continued on next page

Company	Climate Change/ Environment	Sustainability Reporting/ Oversight	Corporate Political Activity	Diversity/ Decent Work	Human Rights	Other	Grand Total
Republic Services			✓				1
ResMed				✓			1
Roper Technologies			✓				1
Ross Stores	✓						1
Royal Caribbean Cruises			✓				1
Safety Insurance Group				✓			1
Sanderson Farms	✓						1
SBA Communications		✓					1
SEI Investments				✓			1
Sempra Energy	✓						1
Simon Property Group			✓				1
Sinclair Broadcast Group				✓			1
Skechers U.S.A.				✓			1
Southern Copper	✓						1
Southwest Airlines					✓		1
Sprint					✓		1
Starbucks	✓					✓	2
Sturm, Ruger					✓		1
SunTrust Banks		✓					1
SVB Financial Group			✓				1
Tesla Motors		✓					1
Texas Instruments					✓		1
TJX	✓			✓	✓✓		4
Tractor Supply			✓				1
TransDigm Group	✓						1
Travelers				✓			1
TripAdvisor				✓	✓		2
Twitter						✓	1
Tyson Foods			✓		✓		2
UGI	✓						1
Under Armour	✓						1
United Continental Holdings			✓				1
United Parcel Service			✓				1
Valero Energy			✓				1
Verizon Communications	✓	✓✓	✓		✓	✓	6
Vertex Pharmaceuticals	✓	✓	✓				3
Vistra Energy	✓						1
Walgreens Boots Alliance		✓				✓	2
Walmart					✓		1
Walt Disney		✓	✓				2
Wells Fargo	✓			✓	✓	✓	4
Wendy's					✓		1
Western Union			✓				1
WisdomTree Investments				✓			1
Wyndham Worldwide			✓				1
Wynn Resorts			✓				1
XPO Logistics				✓			1
Xylem			✓				1
Yum Brands	✓✓✓			✓			4
Grand Total	**81**	**59**	**92**	**78**	**41**	**26**	**377**

(Excludes proposals not yet public.)

ABOUT PROXY PREVIEW

PROXY PREVIEW 2019 IS A COLLABORATION BETWEEN

As You Sow is a nonprofit organization dedicated to increasing environmental and social corporate responsibility. Founded in 1992, As You Sow envisions a safe, just, and sustainable world in which environmental health and human rights are central to corporate decision making. Its Energy, Environmental Health, Waste, and Human Rights programs create positive, industry-wide change through corporate dialogue, shareholder advocacy, coalition building, and innovative legal strategies. www.asyousow.org

The **Sustainable Investments Institute (Si2)**, a nonprofit research organization based in Washington, D.C., conducts impartial research and publishes reports on organized efforts to influence corporate behavior on social and environmental issues. Si2 closely follows shareholder resolutions proposed by investor advocates, but does not making voting recommendations. Instead, it provides the tools and in-depth reports that enable investors to make their own informed, independent decisions on the contentious public policy issues raised during proxy season. Si2 also conducts research into emerging sustainability issues to better help investors and the general public understand the implications they hold for companies and their key stakeholders. Recent reports assess corporate political activity, hydraulic fracturing, integrated reporting, nanotechnologies and sustainable governance issues. Si2 is supported by leading institutional investors, including public and private pension funds, college and university endowments, foundations and fund managers. www.siinstitute.org

Proxy Impact is a progressive proxy voting and shareholder engagement service for foundations, faith-based and sustainable, responsible and impact (SRI) investors. We provide affordable proxy voting based on environmental, social, and governance (ESG) guidelines. Proxy Impact also offers a full range of shareholder engagement services on ESG issues. This includes research, corporate dialogues and filing shareholder resolutions. Our unique consulting service will identify the links and advocacy opportunities between a client's stockholdings and their organization's mission, programs and/or grantees. This allows clients to leverage their shares to support their values and core programs, and provides strategic options for how to address key issues through their investments or grant making. www.proxyimpact.com

SPONSORS

Arjuna Capital empowers our clients to sustainably align their investments for profitability and impact. Arjuna is a one-stop shop for creating a high-impact investment portfolio across markets and asset classes— from public to private, domestic to foreign, equity to debt. Our philosophy is rooted in the concept of sustainability: that economic vitality, environmental responsibility and social equity are mutually supportive measures of a society's health. With decades of experience considering the financial impact of environmental, social and governance (ESG) risk and opportunity factors, our team is uniquely situated to mine insights from this approach to investment analysis. We strive to offer the most diverse, sustainable, profitable and high-impact investments available, build and preserve our clients' wealth, and influence sustainable change through enlightened engagement in the capital markets.. www.arjuna-capital.com

ARJUNA CAPITAL
ENLIGHTENED ENGAGEMENT IN THE CAPITAL MARKETS

Calvert Research and Management is a leader in Responsible Investing. The Calvert Funds trace their roots in Responsible Investing to the founding of Calvert Balanced Portfolio in 1982 as the first mutual fund to oppose investing in companies that support apartheid in South Africa. Today, the Calvert Funds are one of the largest and most diversified families of responsibly invested mutual funds, encompassing actively and passively managed U.S. and international equity strategies, fixed-income strategies and asset allocation funds managed in accordance with the Calvert Principles for Responsible Investment. Calvert Research and Management is a wholly owned subsidiary of Eaton Vance. Learn more at www.calvert.com.

Calvert

ClearBridge Investments is a leading global equity manager with $137 billion in assets under management (as of December 31, 2017). We believe authentic active management and high-conviction portfolios provide opportunities to earn superior long-term investment results. We offer strategies focused on client objectives in our areas of proven expertise: high active share, income solutions and low volatility. We are a pioneer in integrating ESG considerations into our fundamental research, assign ESG ratings to every company in our coverage universe and use those ratings to drive engagement. ClearBridge is a signatory to the United Nations Principles for Responsible Investment. www.clearbridge.com

ClearBridge
Investments

Domini Impact Investments LLC tis a women-led SEC registered investment adviser specializing exclusively in impact investing. We serve individual and institutional investors who wish to create positive social and environmental outcomes while seeking competitive financial returns. We apply social, environmental, and governance standards to all our investments, believing they help identify opportunities to provide strong financial rewards while also helping to create a more just and sustainable economic system. www.domini.com

First Affirmative Financial Network, LLC, a wholly owned subsidiary of FOLIOfn, Inc., is an investment advisory firm specializing in sustainable, responsible, impact (SRI) investing. We began conducting business in 1999 and believe that the ways in which people save, spend and invest can dramatically influence both the fabric and consciousness of society. We help investors make money and make a difference by combining innovative financial management with investment strategies that consider the environmental, social, and governance aspects of investments. We vote client proxies in accordance with detailed voting guidelines and actively engage with selected portfolio companies with the goal of creating a truly sustainable future. www.firstaffirmative.com

Global Proxy Watch is the premier source of inside information about key governance developments worldwide. It's an indispensable resource for leading shareowner activists and experts in every advanced market. Now in its 21th year, GPW keeps subscribers abreast of shareowner activism across borders, the powerful industry of governance advisors, and initiatives by companies, governments and stock exchanges to reform, turbo-charge or block corporate governance. GPW is the place the market turns to for information on who is moving to new posts and for job openings in the governance field. Subscribers include leading pension funds and other activist institutional investors, custodian banks, stock exchanges, corporations, professional trade bodies, management consulting companies, trade unions, investor relations firms, accounting firms, academic institutions, law firms and international governmental organizations. proxywatch.com

Green America's mission is to harness economic power—the strength of consumers, investors, businesses, and the marketplace—to create a socially just and environmentally sustainable society. We work for a world where all people have enough, where all communities are healthy and safe, and where the bounty of the Earth is preserved for all the generations to come. We work on issues of social justice and environmental responsibility. We see these issues as completely linked in the quest for a sustainable world. It's what we mean when we say "green." www.greenamerica.org

Green Century has been helping people invest without compromising their values or the planet for more than 25 years. Through fossil fuel free investing and our three-pronged approach of investment in sustainable companies, active and in-depth shareholder advocacy, and support of environmental and public health non-profit organizations, we offer investors the opportunity to make an impact in a way no other mutual fund family can. www.greencentury.com

Harrington Investments, Inc. (HII) is a leader in Socially Responsible Investing and Shareholder Advocacy. Dedicated to managing portfolios for individuals, foundations, non-profits, organized labor and family trusts to maximize financial, social, and environmental performance, we actively engage in shareholder campaigns and other strategies to promote greater corporate responsibility and social justice. We believe the process of shareholder advocacy influences corporate behavior and educates the public about the practices and values of publicly traded corporations. Our advocacy program includes filing shareholder resolutions on corporate governance, sustainability practices and human and indigenous peoples' rights. In our current socio-political climate, a time of uncertainty and unrest, we continue to call on corporate directors to confront their moral and ethical obligations of fiduciary responsibility. www.harringtoninvestments.com

The **Jessie Smith Noyes Foundation** was established in 1947 by Charles F. Noyes as a memorial to his wife. We support grassroots organizations and movements in the United States working to change environmental, social, economic and political conditions to bring about a more just, equitable and sustainable world. We seek to build the power of people – those most impacted and those who have been marginalized – to be actively involved in advancing solutions to the problems they face. We believe foundations should harmonize philanthropic mission and endowment management. We avoid investing in companies whose environmental or social impact contribute to the problems the Foundation's grantmaking seeks to address. We also look for investment opportunities that further the Foundation's mission and make a positive impact. www.noyes.org

Miller/Howard Investments, Inc. is an independent, SEC-registered investment boutique managing equity portfolios for institutions and individuals in dividend-focused strategies. We began offering ESG strategies and products over 25 years ago, seeking companies with a strong commitment to high operational standards, the environment, social responsibility, and good governance. Our firm believes that integrating ESG analysis and engagement with solid financials and a proven history of dividends and dividend growth provides a framework for achieving long-term investment returns, while building sustainable global economies and markets. We actively engage corporations on ESG issues, including hydraulic fracturing, methane emissions, drug pricing, sustainability reporting, and board gender diversity. We are a signatory to the UN Principles for Responsible Investment and the Women's Empowerment Principles, as well as a member of Ceres and the Interfaith Center on Corporate Responsibility (ICCR). Find more on our website: www.mhinvest.com

Miller/Howard INVESTMENTS, INC

The Murninghan Post is a platform for a new kind of politics that reboots democracy and bridges the equity gap. It's part of a networked systems approach that educates, empowers, and engages concerned citizens in the process of redirecting vast pools of money and power toward the public interest. The goal: build equity culture and civic stewardship by reviving those self-evident truths and values that are enshrined in the American covenant and democracy's promise. The strategy: integrate these virtues within investment policy and practice of "civic fiduciaries," those tax-supported, tax-exempt institutions with billions of dollars in their portfolios. The process and impacts: incorporate multi-capital, multi-asset, and multi-portfolio approaches that deploy polycentric power that, in turn, can strengthen a range of social and economic justice, environmental, and good governance outcomes. murninghanpost.com

MP The Murninghan Post
Building the transition to sustainable prosperity and justice

Rooted in the Jewish tradition of social justice, the **Nathan Cummings Foundation** focuses on finding solutions to the two biggest problems of our time – the climate crisis and growing inequality—and aims to transform the systems and mindsets that hinder progress toward a more sustainable and equitable future for all people, particularly women and people of color. To do so, the Foundation invests in four focus areas: Inclusive Clean Economy; Racial and Economic Justice; Corporate and Political Accountability; and Voice, Creativity and Culture. The Foundation also uses its standing as an investor in publicly traded companies to push for changes that both further our mission and enhance long-term shareholder value. For more information, visit www.nathancummings.org.

THE NATHAN CUMMINGS FOUNDATION

Founded in 1984, **Parnassus Investments** is a pioneer in socially responsible investments. Based in San Francisco, the firm invests responsibly to build wealth for its clients by selecting businesses that the investment team believes have increasingly relevant products or services, sustainable competitive advantages and quality management teams for their high conviction portfolios. Every investment must meet rigorous fundamental and environmental, social and governance (ESG) criteria. www.parnassus.com

PARNASSUS INVESTMENTS®

Progressive Asset Management is a national financial advisor network with a wide range of products and financial planning services. With nearly three decades of experience we can assist; whether you are an individual starting to invest in the market, an individual or couple planning for or recently retired, a family planning for your children's education, or an organization looking for employee retirement plans, our knowledgeable advisors can help you reach your fiscal goals while at the same time giving you the opportunity to invest in ways that reflect your values and have a positive impact on society. www.progressiveassetmanagement.com

PROGRESSIVE Asset Management

For more than a century, **RBC Wealth Management** has provided trusted advice and wealth management solutions to individuals, families and institutions. We are a global organization, bringing our diverse expertise and deep knowledge to the sophisticated financial needs of our clients around the world. We are committed to earning our client's trust by building lasting relationships and confidence, putting your interests first in everything we do. Every interaction with us is defined through our core values and culture of doing what's right for our clients and the communities we operate in. Forward-looking, innovative and committed helping our clients thrive and communities prosper – we are the partner you can depend on to help you achieve your financial goals. www.rbcwealthmanagement.com

RBC®

Responsible Investor – Launched June 2007, Responsible Investor (RI) is the only dedicated news service reporting on responsible investment, ESG (environmental, social and governance) and sustainable finance issues for institutional investors globally, read by: pension funds, public and government funds, central banks, endowments, foundations, faith groups, family offices, corporations, investment consultants, asset managers, research and data providers, insurance companies, banks, associations, governments, regulators, NGOs, and other industry practitioners. RI also produces the industry-leading regional conferences: RI Asia Japan, RI Europe and RI Americas. www.responsible-investor.com

The Rose Foundation for Communities and the Environment is a grantmaking public charity dedicated to the concept that environmental stewardship, community regeneration, consumer protection, robust civic participation, and a healthy economy are all inextricably linked. The Foundation supports grassroots initiatives to build the power of informed community involvement and to inspire community action to protect the environment, consumers, and public health. rosefdn.org

The Singing Field Foundation is a small family foundation, which began active grantmaking in 2004. The foundation's current grants budget is around $200,000. Grants are initiated by the foundation's directors and typically provide general support for environmental, animal welfare, health-related organizations, and other charities of interest to family members. The foundation's interest in mission-related investing and "active ownership" of the companies in which the foundation is invested reflects our desire to maximize our impact as a small foundation, by deploying "the other 95 percent" of our assets, and our personal values, which dictate that the foundation's investments should be aligned with the foundation's mission. The Singing Field Foundation's support for As You Sow flows directly from this interest and complements the foundation's other grantmaking.

The Sustainability Group of Loring, Wolcott & Coolidge, founded by industry pioneer Amy Domini, seeks to deliver superior, long-term returns while investing for social and environmental progress. We offer trustee services and individually tailor portfolios to help clients invest in companies that do business in ways that value the issues they care about most, as well as profits. Many firms are just discovering socially responsible investing, but we have been integrating ESG into our investment process for over 30 years. We give clients the opportunity to invest today for a better tomorrow through active integration of sustainability into our investment strategy, direct corporate engagement, and meaningful community development and impact investments. www.lwcotrust.com

Founded in 1982, **Trillium Asset Management** is the oldest investment advisor focused exclusively on sustainable and responsible investing. Trillium integrates Environmental, Social, and Governance (ESG) factors into the investment process as a way to identify the companies best positioned to deliver strong long-term performance. A leader in shareholder advocacy and public policy work, Trillium leverages the power of stock ownership to promote social and environmental change while providing both impact and performance to our investors. www.trilliuminvest.com

Veris Wealth Partners is a wealth management firm founded in 2007 that serves individuals, families, and foundations. A pioneer in impact investing wealth management, Veris helps clients achieve their financial objectives, while aligning their wealth with their values. We create comprehensive strategies that help clients grow and preserve their wealth and manage it across generations by investing in companies focused on sustainability and Environmental, Social and Governance (ESG) principles. We believe companies committed to these ideas deliver competitive market performance, while mitigating risk for investors. www.veriswp.com

As the oldest institutional investment manager in the sustainable and responsible investment (SRI) industry, since 1975 **Walden Asset Management** has engaged portfolio companies urging them to strengthen their corporate responsibility and accountability. As long term investors, we believe that effective shareholder engagement can lead to improved corporate policies, more sustainable business practices, and greater transparency and accountability. www.waldenassetmgmt.com


INVESTING FOR SOCIAL AND ENVIRONMENTAL PROGRESS
We individually tailor portfolios to give clients the opportunity to invest for social and environmental progress through active integration of sustainability into our investment strategy, direct corporate engagement, and meaningful community development and impact investments.
the SUSTAINABILITY GROUP
www.sustainabilitygroup.com
Part of Loring, Wolcott & Coolidge Fiduciary Advisors, LLP


ALIGN YOUR WEALTH & VALUES
VERIS Wealth Partners
Values. Wealth. Sustainability.
An impact wealth management firm
New York City • San Francisco • Portsmouth • Boulder
Certified B Corporation
212.349.4172
VERISWP.COM

As You Sow®
1611 Telegraph Ave., Ste. 1450 • Oakland, CA 94612 • 510.735.8158 • www.asyousow.org
Download the full report at www.proxypreview.org